NEW ISSUE
(BOOK-ENTRY ONLY)

RATINGS
Moody's: Aaa/VMIG 1
Standard & Poor's: AAA/A-1+
Fitch: AAA/F1+
See "Ratings" herein.

In the opinion of Bond Counsel, subject to the limitations and conditions described herein, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from present State of Georgia income taxation. See "LEGAL AND TAX STATUS - Tax Consequences of Owning the Bonds" herein.

$300,000,000
State of Georgia
General Obligation Variable Rate Demand Bonds

$100,000,000	**$100,000,000**	**$100,000,000**
2006 H-1	**2006 H-2**	**2006 H-3**

Dated: December 21, 2006 **Due: December 1, 2026**

The captioned bonds (the "Bonds" or, as applicable, the "2006H-1 Bonds", the "2006H-2 Bonds" and the "2006H-3 Bonds") will be issued by the Georgia State Financing and Investment Commission (the "Commission") for and on behalf of the State of Georgia (the "State") for the purpose of providing funds, together with any other available funds, to finance certain projects and facilities for the Department of Transportation by means of the acquisition, construction, development, extension, enlargement or improvement of land, waters, property, highways, buildings, structures, equipment or facilities, both real and personal, necessary or useful in connection therewith. The Bonds are being issued by the Commission pursuant to powers granted to the Commission in the Constitution of the State of Georgia and the legislative act creating the Commission. **The Bonds so issued constitute direct and general obligations of the State for the payment of which the full faith, credit and taxing powers of the State are pledged.** The Bonds will be issued in book-entry form registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York. See "THE BONDS - Book-Entry System" herein.

The Bonds will initially bear interest at a Weekly Rate as described herein. The method of determining the interest rate on the Bonds of each Series may be changed from time to time as described herein. While the Bonds bear interest at a Weekly Rate, individual purchases of Bonds by beneficial owners will be made in denominations of $100,000 or any whole multiple of $1,000 in excess of $100,000. The Bonds will be subject to optional and mandatory sinking fund redemption prior to their stated maturity and will also be subject to optional and mandatory tender for purchase as described herein.

Subject to the terms of each initial Liquidity Facility as described herein, Dexia Credit Local, acting by and through its New York Branch (the "Bank"), as the provider of each initial Liquidity Facility, will purchase the Bonds on any purchase date under the circumstances described herein if remarketing proceeds are not available for such purchase. Each initial Liquidity Facility will expire on December 21, 2011, unless otherwise extended or earlier terminated as provided therein. **Under certain circumstances, each initial Liquidity Facility can be terminated without prior notice or opportunity to tender the Bonds for purchase prior to such termination.** See "THE LIQUIDITY FACILITY AND THE BANK" herein.

Banc of America Securities LLC will underwrite and serve as Remarketing Agent with respect to the 2006H-1 Bonds. Lehman Brothers Inc. will underwrite and serve as Remarketing Agent with respect to the 2006H-2 Bonds. Wachovia Bank, National Association will underwrite and serve as Remarketing Agent with respect to the 2006H-3 Bonds.

OWNERS AND PROSPECTIVE PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT WITH RESPECT TO INFORMATION CONCERNING THE BONDS OF A SERIES ON OR AFTER ADJUSTMENT TO A TERM INTEREST RATE PERIOD AS DESCRIBED HEREIN.

The Bonds are offered when, as and if issued by the State and accepted by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, validation by the Superior Court of Fulton County, Georgia and approval as to legality by Thomas, Kennedy, Sampson & Patterson, Atlanta, Georgia, Bond Counsel. Certain legal matters will be passed on for the State by its disclosure counsel, Golden & Associates, Atlanta, Georgia, and for the Underwriters by their counsel, King & Spalding LLP, Atlanta, Georgia. The Bonds in definitive form are expected to be delivered through the facilities of The Depository Trust Company, New York, New York on or about December 21, 2006.

Banc of America Securities LLC	**Lehman Brothers**	**Wachovia Securities**
(Series 2006 H-1 Bonds)	**(Series 2006 H-2 Bonds)**	**(Series 2006 H-3 Bonds)**

The date of this Official Statement is December 14, 2006.

STATE OF GEORGIA

Governor
SONNY PERDUE

Lieutenant Governor
MARK TAYLOR

Georgia State Financing and Investment Commission
270 Washington Street
Suite 2140
Atlanta, Georgia 30334
Telephone (404) 463-5700

Members
SONNY PERDUE - Governor
MARK TAYLOR - President of the Senate
GLENN RICHARDSON - Speaker of the House of Representatives
THURBERT E. BAKER - Attorney General
TOMMY IRVIN - Commissioner of Agriculture
W. DANIEL EBERSOLE - Director, Office of Treasury and Fiscal Services
RUSSELL W. HINTON - State Auditor

Financing and Investment Division
DIANA POPE – Interim Director

Construction Division
GENA LESTER ABRAHAM – Director

State Law Department
THURBERT E. BAKER - Attorney General
TONYA CURETON CURRY – Assistant Attorney General

Bond Counsel
THOMAS, KENNEDY, SAMPSON & PATTERSON
Atlanta, Georgia

Disclosure Counsel
GOLDEN & ASSOCIATES
Atlanta, Georgia

Financial Advisor
PUBLIC RESOURCES ADVISORY GROUP
New York, New York

No dealer, broker, salesperson or other person has been authorized by the State to give any information or to make any representations, other than as contained in this Official Statement in connection with the issuance of the Bonds described herein and, if given or made, such information or representations must not be relied upon as having been authorized by the State. This Official Statement does not constitute an offer to sell the Bonds or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been furnished by the State, the Bank and by other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implications that there has been no change in the affairs of the State or any other parties described herein since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the State's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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SUMMARY STATEMENT

(Subject in all respects to more complete information in this Official Statement.)

Issuer:	The State of Georgia acting by and through the Georgia State Financing and Investment Commission.
Offering:	General Obligation Variable Rate Demand Bonds, 2006H-1 – $100,000,000. General Obligation Variable Rate Demand Bonds, 2006H-2 – $100,000,000. General Obligation Variable Rate Demand Bonds, 2006H-3 – $100,000,000.
Maturity:	Each Series of the Bonds matures on December 1, 2026.
Initial Mode:	The Bonds are being initially issued in a Weekly Rate mode.
Interest:	So long as the Bonds are in a Weekly Rate Period, interest on the Bonds is payable on the first Business Day of each calendar month, commencing January 2, 2007.
Maximum Rate:	The Maximum Rate of interest on the Bonds is 9% per annum.
Purpose:	To provide funds for various capital outlay projects for the Department of Transportation. See "PURPOSE OF BONDS."
Security:	General obligations of the State of Georgia to which its full faith, credit and taxing power are pledged.
Liquidity:	Bonds subject to purchase under the terms of the Indenture for which remarketing proceeds are not available will be purchased by Dexia Credit Local, acting by and through its New York Branch, pursuant to a Liquidity Facility relating to each Series of the Bonds.
Book-Entry Bonds:	Bonds issued in fully registered form without interest coupons in denominations of $100,000 and integral multiples of $1,000 in excess of $100,000. Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York.
Redemption:	So long as the Bonds are in a Weekly Rate Period, the Bonds of a Series are subject to optional redemption, in whole or in part, on any Business Day, at par plus accrued interest. Commencing December 1, 2007, the Bonds are subject to mandatory sinking fund redemption as set forth herein under "THE BONDS - Redemption Provisions - *Mandatory Redemption*."
Bond Counsel:	Thomas, Kennedy, Sampson & Patterson, Atlanta, Georgia
Disclosure Counsel:	Golden & Associates, Atlanta, Georgia
Underwriters' Counsel:	King & Spalding LLP, Atlanta, Georgia
Financial Advisor:	Public Resources Advisory Group, New York, New York
Registrar, Paying Agent and Tender Agent:	The Bank of New York Trust Company, N.A.
Underwriters and Remarketing Agents:	With respect to the 2006H-1 Bonds, Banc of America Securities LLC; with respect to the 2006H-2 Bonds, Lehman Brothers Inc.; and with respect to the 2006H-3 Bonds, Wachovia Bank, National Association.
Bond Ratings:	Applications for credit ratings have been made to Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and Fitch Ratings.

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$300,000,000
State of Georgia
General Obligation Variable Rate Demand Bonds, 2006H-1 - $100,000,000
General Obligation Variable Rate Demand Bonds, 2006H-2 - $100,000,000
General Obligation Variable Rate Demand Bonds, 2006H-3 - $100,000,000

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to provide certain information concerning the State of Georgia (the "State") and the above-referenced bonds comprised of (i) State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-1 (the “2006H-1 Bonds”), (ii) State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-2 (the “2006H-2 Bonds”) and (iii) State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-3 (the “2006H-3 Bonds,” and together with the 2006H-1 Bonds and the 2006H-2 Bonds, the “Bonds”).

See Appendix D for the definition of certain capitalized terms used herein. Capitalized terms used herein and not otherwise defined shall have the same meanings given such terms in the Indenture (hereinafter defined) unless otherwise indicated.

Authorization and Security. The Bonds are being issued by the Georgia State Financing and Investment Commission (the "Commission"), acting for and on behalf of the State, pursuant to the Constitution and laws of the State, the Bond Resolution adopted by the Commission on September 20, 2006 (the "Bond Resolution"), as supplemented by action taken by a committee created under the Bond Resolution for such purpose and composed of members of the Commission (the “Bond Committee”), on October 23, 2006, and November 28, 2006, as reflected in the minutes of such Bond Committee on such dates (the “Committee Resolutions,” and together with the Bond Resolution, the “Resolutions”), and the Bond Indenture of the Commission, dated December 21, 2006 (the “Indenture”). The Bonds will constitute a debt of the State for which the full faith, credit and taxing power of the State are pledged to the payment of the Bonds and the interest thereon. See "SECURITY FOR THE BONDS" herein. The proceeds from the sale of the Bonds will be used to finance certain capital outlay projects of the Department of Transportation as described under “PURPOSE OF THE BONDS” herein. The Bonds are authorized to be issued pursuant to powers granted to the Commission in Article VII, Section IV of the Constitution of the State and the Georgia State Financing and Investment Commission Act (Ga. Laws 1973, p. 750, *et seq.*, codified at O.C.G.A. Section 50-17-20, *et seq*., referred to herein as the "Act"). See "SECURITY FOR THE BONDS," "THE COMMISSION" and "APPENDIX A - STATE OF GEORGIA - Debt and Revenue Information - Appropriations and Debt Limitations" herein.

Details of the Bonds. The Bonds will be dated as of the date of their initial delivery and will bear interest from such date at the interest rates provided herein and payable on the dates provided herein. Principal on each Series of the Bonds will be payable, subject to prior redemption as described herein, including mandatory sinking fund redemption on each December 1, commencing December 1, 2007, with final payment due on December 1, 2026. The Bonds of each Series will initially bear interest at a Weekly Rate but the method of determining the interest rate may be changed as described herein, but in any event the rate of interest borne by the Bonds shall not exceed the Maximum Rate. While Bonds of each Series bear interest at a Daily Rate, Weekly Rate or Commercial Paper Rates, individual purchases of Bonds by beneficial owners will be made in denominations of $100,000 or any whole multiple of $1,000 in excess of $100,000. While the Bonds of each Series bear interest at a Term Rate Period, individual purchases of Bonds by the beneficial owners will be made in denominations of $1,000, or any whole integral multiple thereof. The Bonds of each Series will be subject to optional and mandatory tender for purchase as described herein. See “THE BONDS” herein. ***The interest rate determinations, the changing of such determinations, the redemption provisions and the tender provisions for each Series are separate and independent of the other Series.***

Liquidity Facilities. Dexia Credit Local, acting by and through its New York Branch (the “Bank”), will purchase the Bonds of each Series upon tender thereof under certain circumstances if remarketing proceeds are not available for such purchase pursuant to a separate Standby Bond Purchase Agreement with respect to each Series each dated December 21, 2006 (initially, each a “Liquidity Facility”), between the State and the Bank. The Bank has no obligation to make payments of principal or interest on the Bonds. ***Under certain circumstances, each Liquidity Facility can be terminated without prior notice or opportunity to tender the Bonds of the respective Series for purchase prior to such termination.*** See “THE LIQUIDITY FACILITIES AND THE BANK” herein. References in this Official Statement to the “Liquidity Facility” shall mean each Liquidity Facility then in effect with respect to a Series. The Liquidity Facility for a Series is separate and independent of the Liquidity Facilities for other Series except as described under “THE LIQUIDITY FACILITIES AND THE BANK” herein.

Tax Status. In the opinion of Bond Counsel, subject to the limitations and conditions described herein, interest on the Bonds is excludable from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from present State of Georgia income taxation. See "LEGAL AND TAX STATUS - Tax Consequences of Owning the Bonds" herein.

Professionals. Banc of America Securities LLC, Atlanta, Georgia, Lehman Brothers Inc., New York, New York, and Wachovia Bank, National Association, Charlotte, North Carolina, are underwriting the Bonds. Banc of America Securities LLC will serve as underwriter and Remarketing Agent with respect to the 2006H-1 Bonds. Lehman Brothers Inc. will serve as underwriter and Remarketing Agent with respect to the 2006H-2 Bonds. Wachovia Bank, National Association will serve as underwriter and Remarketing Agent with respect to the 2006H-3 Bonds. The Bonds are offered subject to, among other things, the approving legal opinion of Thomas, Kennedy, Sampson & Patterson, Atlanta, Georgia, Bond Counsel. Certain legal matters will be passed on for the State by its disclosure counsel, Golden & Associates, Atlanta, Georgia, and for the Underwriters, by their counsel, King & Spalding LLP, Atlanta, Georgia. Public Resources Advisory Group, New York, New York, is serving as financial advisor to the State in connection with the Bonds.

Delivery. It is expected that the Bonds will be available for delivery in New York, New York, on or about December 21, 2006, in book-entry form only, with actual bond certificates immobilized in the custody of The Depository Trust Company ("DTC"), New York, New York, a registered securities depository.

Additional Information. This Official Statement speaks only as of its date and is subject to change. This Introduction is a brief description of the matters contained herein, and a full review should be made of the entire Official Statement, as well as any documents described or summarized herein. Requests for additional information with respect to this Official Statement and copies of the Resolutions or Indenture may be directed to Diana Pope, Interim Director, Financing and Investment Division, Georgia State Financing and Investment Commission, 270 Washington Street, S.W., Suite 2140, Atlanta, Georgia 30334, telephone number (404) 463-5700.

OWNERS AND PROSPECTIVE PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT WITH RESPECT TO INFORMATION CONCERNING THE BONDS OF A SERIES ON OR AFTER ADJUSTMENT TO A TERM INTEREST RATE PERIOD AS DESCRIBED HEREIN.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated as of the date of their delivery and will mature, subject to prior redemption as described below, on December 1, 2026. The Bonds will be issued as fully registered bonds in book-entry form and will be subject to the provisions of the book-entry system described below. While Bonds bear interest at a Daily Rate, Weekly Rate or Commercial Paper Rates, individual purchases of Bonds by the beneficial owners will be made in denominations of $100,000 or any whole multiple of $1,000 in excess of $100,000. While Bonds bear interest at a Term Rate, individual purchases of Bonds by the beneficial owners will be made in denominations of $1,000 or any whole multiple thereof.

Each Bond of each Series will bear interest from the Interest Payment Date next preceding the date on which it is authenticated unless it is (a) authenticated on an Interest Payment Date in which event it will bear interest from such Interest Payment Date or (b) authenticated prior to the first Interest Payment Date in which event it will bear interest from its date; provided, however, that if at the time of authentication interest on any Bond is in default, such Bond will bear interest from the date to which interest has been paid or, if no interest has been paid, from its date. Set forth on the following page is a chart summarizing certain characteristics of the Bonds in the different interest rate modes.

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	Daily Rate	Weekly Rate	Commercial Paper Rate	Term Rate
Accrual Period	Calendar Month	Calendar Month	From 1 to 180 days as determined for each Bond pursuant to the Indenture ("Calculation Period")	Period beginning on the immediately preceding Interest Payment Date, and ending on the day immediately preceding the Interest Payment Date
Interest Payment Date	First Business Day of each calendar month	First Business Day of each calendar month	The day next succeeding the last day of the Calculation Period	Each December 1 and June 1, or, if any such December 1 or June 1 shall not be a Business Day, the next succeeding Business Day
Record Date	The Business Day immediately preceding each Interest Payment Date	The Business Day immediately preceding each Interest Payment Date	The Business Day immediately preceding each Interest Payment Date	Fifteenth day of the month immediately preceding the Interest Payment date
Reset Date	No later than 10:00 a.m., New York City time, on each Business Day	No later than 3:00 p.m., New York City time, on Wednesday of each week, or if such day shall not be a Business Day, then on the next succeeding business day	No later than the first day of each Calculation Period	No earlier than 2 weeks before the effective date of the such Term Rate Period and no later than the effective date of such Term Rate Period
Rate Periods	Commencing on one Business Day extending to, but not including, the next succeeding Business Day	Each Weekly Rate shall generally apply to the period commencing on Thursday and ending on the next succeeding Wednesday	A period of one day to not more than 180 days	At least 181 days
Optional Tender Date	On any Business Day	On any Business Day	Not subject to optional tender	Not subject to optional tender
Notice Period for Optional Tenders	Written notice no later than 11:00 a.m., New York City time on optional tender date	Written notice no later than 4:00 p.m., New York City time not prior to the 7th day next succeeding the date of delivery of such written notice	Not subject to optional tender	Not subject to optional tender
Payment Date for Bonds subject to optional tender	By the close of business on the date at which such Bonds are required to be purchased	By the close of business on the date at which such Bonds are required to be purchased	Not subject to optional tender	Not subject to optional tender
Payment Date for Tendered Bonds upon Mandatory Tender	By the close of business on the date at which such Bonds are required to be purchased	By the close of business on the date at which such Bonds are required to be purchased	By the close of business on the date at which such Bonds are required to be purchased	By the close of business on the date at which such Bonds are required to be purchased

The Bonds of each Series will initially bear interest at a Weekly Rate. The method of determining interest rates on the Bonds is subject to being changed from a Weekly Rate to a Daily Rate, Commercial Paper Rates or a Term Rate as described below. Such changes may be made for one or more Series without changing the other Series. Each period during which a Daily

Rate is in effect is known as a Daily Rate Period, each period during which a Weekly Rate is in effect is known as a Weekly Rate Period, each period during which Commercial Paper Rates are in effect is known as a Commercial Paper Period and each period during which a Term Rate is in effect is known as a Term Rate Period. An Interest Rate Period means any Daily Rate Period, Weekly Rate Period, Commercial Paper Period or Term Rate Period.

The principal of the Bonds will be payable upon surrender thereof at the principal corporate trust office of the Paying Agent or such other place as the State may determine. Such payment of principal will be by check; provided, however, that the principal of the Bonds will be paid by wire transfer (in the continental United States) of immediately available funds to any Owner of at least $1,000,000 in aggregate principal amount of the Bonds of the same Series outstanding, at such Owner's option, in each case according to wiring instructions given to the Paying Agent in writing for such purpose. Interest on the Bonds will be paid by the Paying Agent (a) with respect to any Daily Rate Period or Weekly Rate Period, on the first Business Day of each calendar month, beginning January 2, 2007, (b) with respect to any Calculation Period within a Commercial Paper Period, on the day next succeeding the last day of each Calculation Period and (c) with respect to any Term Rate Period, on each December 1 and June 1, or, if any such December 1 or June 1 is not a Business Day, on the next succeeding Business Day. Interest on the Bonds during any Daily Rate Period, Weekly Rate Period or Term Rate Period will be paid by check mailed to the Owner as of the Record Date. In the case of (a) Bonds bearing interest at Commercial Paper Rates or (b) any Owner of Bonds of a Series bearing interest at other than Commercial Paper Rates in an aggregate principal amount in excess of $1,000,000 as shown on the registration books kept by the Paying Agent who, prior to the Record Date next preceding any Interest Payment Date, shall have provided, or caused to be provided, to the Paying Agent wire transfer instructions, interest payable on such Bonds will be paid by wire transfer (in the continental United States) of immediately available funds in accordance with the wire transfer instructions provided by the Owner of such Bonds (or by the Remarketing Agent on behalf of such Owner). Interest on any Bond bearing interest at a Commercial Paper Rate will be payable only upon presentation and surrender of such Bond to the Tender Agent at its Principal Office.

The Bonds will be subject to optional and mandatory tender for purchase under certain circumstances as described below.

EXCEPT AS OTHERWISE EXPRESSLY STATED IN THE RESOLUTIONS OR THE INDENTURE, EACH SERIES OF BONDS CONSTITUTES SEPARATE ISSUES OF BONDS FOR PURPOSES OF THE RESOLUTIONS AND THE INDENTURE AND WILL BE TREATED AS INDEPENDENT SERIES OF BONDS FOR ALL PURPOSES, INCLUDING DETERMINATION OF INTEREST RATE MODES AND INTEREST RATES, ADJUSTMENTS IN INTEREST RATE PERIODS, TENDER AND PURCHASE PROVISIONS, REDEMPTION PROVISIONS AND REMARKETING. THE PROVISIONS OF THE INDENTURE RELATING TO SUCH MATTERS ARE IDENTICAL EXCEPT AS OTHERWISE EXPRESSLY INDICATED.

Book-Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each Series of the Bonds, each in the aggregate principal amount of such Series, and will be deposited with DTC. **SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS DTC'S PARTNERSHIP NOMINEE, REFERENCES HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.**

General. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's direct participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases; Transfers. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of actual purchasers of Bonds ("Beneficial Owners") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices; Voting. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures.

Payments. Payments of principal and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC, the State or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State and the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Tender. A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Direct or Indirect Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional or mandatory tender for purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account. See "Tender Provisions" below.

Discontinuance. DTC may discontinue providing its service as securities depository with respect to the Bonds at any time by giving reasonable notice to the State and the Paying Agent. Under such circumstances, or in the event the State desires to use a similar book-entry system with another securities depository, there may be a successor securities depository (all references to DTC include any such successor). The State, acting by and through the Commission, may also decide to discontinue participation in the system of book-entry transfer through DTC (or a successor securities depository) at any time by giving reasonable notice to DTC. If the book-entry system is discontinued and there is no successor securities depository, Bond certificates will be printed and delivered to the Beneficial Owners.

Disclaimers. The State, the Commission, the Paying Agent and the Tender Agent cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the Bonds (a) payments of principal or interest with respect to the Bonds, (b) confirmations of their ownership interests in the Bonds or (c) prepayment or other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

NEITHER THE STATE, THE COMMISSION, THE PAYING AGENT NOR THE TENDER AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the State takes no responsibility for the accuracy thereof.

Interest Rates

Interest on the Bonds of each Series will be computed, in the case of a Daily Rate Period, a Weekly Rate Period or a Commercial Paper Period, on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed and, in the case of a Term Rate Period, on the basis of a 360-day year consisting of twelve 30-day months.

The term of the Bonds of each Series may be in separate Interest Rate Periods (selected by the Commission) from the Bonds of the other Series during which the Bonds of such Series will bear interest at interest rates determined as described below. At any time, all Bonds of a Series must bear interest in a single interest rate mode (either a Daily Rate, a Weekly Rate, Commercial Paper Rates or a Term Rate, as applicable), but one or more other Series may bear interest at different rates. During a Commercial Paper Period, Bonds of a Series may bear interest at different Commercial Paper Rates and have Calculation Periods of different durations. At no time will any Bond bear interest in excess of the Maximum Rate (other than, in certain circumstances, Bank Bonds). For any Daily Rate Period or Weekly Rate Period, interest will accrue from and including the first day thereof and thereafter from and including the first Business Day of each month to and including the day prior to either the first Business Day of the next succeeding calendar month or, if sooner, the last day of the Daily Rate Period or the Weekly Rate Period. For any Calculation Period within a Commercial Paper Period, interest will accrue from and including the first day thereof to and including the last day thereof. For any Term Rate Period, interest will accrue from and including the first day thereof and thereafter from and including each Interest Payment Date in respect thereof (other than the last such Interest Payment Date), to and including the day immediately preceding the next succeeding Interest Payment Date.

Daily Rate Period. The Daily Rate will be determined by the Remarketing Agent by 10:00 a.m., New York City time, on each Business Day during a Daily Rate Period. The Daily Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable in the judgment of the Remarketing Agent to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Daily Rate for any day during a Daily Rate Period, the interest rate for such day will be the latest BMA Index Rate published on or immediately before the day the Daily Rate would otherwise be determined by the Remarketing Agent, or, in the event the BMA Index is no longer published, the last Daily Rate determined by the Remarketing Agent.

Weekly Rate Period. The Weekly Rate will be determined by the Remarketing Agent by 3:00 p.m., New York City time, on Wednesday of each week during a Weekly Rate Period or on the next succeeding Business Day if such Wednesday is not a Business Day. The first Weekly Rate determined for each Weekly Rate Period will be determined on or prior to the first day of such Weekly Rate Period and will apply to the period commencing on the first day of such Weekly Rate Period and ending on the next succeeding Wednesday. Thereafter, each Weekly Rate will apply to the period commencing on Thursday and ending on the next succeeding Wednesday, unless such Weekly Rate Period ends on a day other than Wednesday, in which event the last Weekly Rate will apply to the period commencing on the Thursday preceding the last day of such Weekly Rate Period and ending on the last day of such Weekly Rate Period.

The Weekly Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable in the judgment of the Remarketing Agent for such Series of the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds of such Series, would enable the Remarketing Agent to sell such Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Rate for any week during a Weekly Rate Period, the interest rate for such week will be the latest BMA Index Rate published on or immediately before the day the Weekly Rate would otherwise be determined by the Remarketing Agent, or, in the event the BMA Index Rate is no longer published, the last Weekly Rate determined by the Remarketing Agent.

Commercial Paper Period. During each Commercial Paper Period, each Bond will bear interest at the Commercial Paper Rate determined for the Calculation Period applicable to such Bond by the Remarketing Agent no later than the first day of each Calculation Period. Each Calculation Period will be a period ranging from 1 to 180 days as determined by the Remarketing Agent to be the period which, together with all other Calculation Periods for all Bonds of such Series then outstanding, will result in the lowest overall interest expense on the Bonds for the next succeeding 180 days. In determining the duration of each Calculation Period, the Remarketing Agent will take into account the following factors: (a) existing short-term tax-exempt market rates and indices of such short-term rates, (b) existing market supply and demand for short-term securities, (c) existing yield curves for short-term and long-term securities for obligations of credit quality comparable to the Bonds, (d) general economic conditions, (e) economic and financial conditions that may affect or be relevant to the Bonds, (f) the Calculation Periods of other Bonds and (g) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent, in its sole discretion, determines to be relevant.

The Remarketing Agent will announce, by no later than 9:00 a.m., New York City time, on the first day of each Calculation Period, the ranges of possible Calculation Periods. The Calculation Period and the Commercial Paper Rate need not be the same for any two of the Bonds, even if determined on the same date.

The Commercial Paper Rate for each Calculation Period will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable in the judgment of the Remarketing Agent to the Bonds and known by the Remarketing Agent to have been priced or traded under the then-prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds for such Calculation Period, would enable the Remarketing Agent to sell such Bonds on the date and at the time of such determination at a price (without regard to accrued interest) equal to the principal amount thereof.

If for any reason a Calculation Period for any Bond cannot be determined by the Remarketing Agent, such Calculation Period will be 30 days. If for any reason a Commercial Paper Rate for any Bond is not so established by the Remarketing Agent for any Calculation Period, then the Commercial Paper Rate for such Calculation Period shall be the rate per annum equal to the greater of either (i) the latest BMA Index Rate published on or immediately before the day the Commercial Paper Rate would otherwise be determined as described herein for such Calculation Period or (ii) 70% of the interest rate on high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the first day of such Calculation Period with a maturity that most nearly equals the Calculation Period for which a Commercial Paper Rate is being so calculated.

Term Rate Period. The duration of a Term Rate Period will be determined by the Commission, which duration will be at least 181 days. The Term Rate for any Term Rate Period will be determined by the Remarketing Agent on a Business Day no earlier than two weeks before the effective date of such Term Rate Period and no later than the effective date of such Term Rate Period. The Term Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of obligations comparable in the judgment of the Remarketing Agent to the Bonds of such Series and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum rate which, if borne by the Bonds of such Series, would enable the Remarketing Agent to sell such Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If for any reason the Remarketing Agent does not determine a Term Rate on or prior to the first day of such Term Rate Period, then the Bonds will bear interest at a Weekly Rate, and will continue to bear interest at a Weekly Rate until properly adjusted otherwise as provided in the Indenture. **Under the Indenture, a Liquidity Facility is not required to be in place for any Term Rate Period which is longer than 13 months in duration.**

Owners and prospective purchasers of the Bonds should not rely on this Official Statement with respect to information concerning any Series of the Bonds on or after adjustment to a Term Rate Period, but should look solely to supplements, revisions or substitutions to this Official Statement for information concerning such Bonds on or after adjustment to a Term Rate Period.

Adjustment of Interest Rate Periods

The Commission may elect at any time to adjust the Interest Rate Period on the Bonds of a Series from one Interest Rate Period to an alternate Interest Rate Period (or during a Term Rate Period, to establish another Term Rate Period), subject to certain conditions specified in the Indenture, including delivery of an opinion of Bond Counsel to the effect that such action is authorized or permitted by the laws of the State of Georgia, the Resolutions and the Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes, or any exemption from State of Georgia income taxes, of interest on the Bonds (a "Favorable Opinion of Bond Counsel"); provided, however, a Favorable Opinion of Bond Counsel is only required if the length of the Interest Rate Period for the Bonds of such Series will change from an interval of 365 days or less to an interval of more than 365 days, or vice versa.

If the Commission elects to adjust the Bonds of a particular Series to an alternate Interest Rate Period (including during a Term Rate Period, the establishment of a new Term Rate Period), all of the Bonds of such Series will be subject to such alternate Interest Rate Period. ***The other Series may or may not be changed at the same time.*** The direction, which will be delivered via Electronic Means, by which the Commission makes such election will specify (a) in the case of an adjustment to a Term Rate Period, the duration of such Term Rate Period; (b) the effective date of the adjustment to any alternate Interest Rate Period, which effective date will be (i) a Business Day not earlier than the 12th day (15th day in the case of an adjustment to a Daily Rate Period, a Weekly Rate Period or Commercial Paper Period from a Term Rate Period, and 30th day in the case of an adjustment to a, or the establishment of another, Term Rate Period) following the second Business Day after receipt by the Paying Agent of such direction from the Commission, (ii) in the case of an adjustment from a Term Rate Period, the day immediately following the last day of the then-current Term Rate Period or a day on which the Bonds would otherwise be subject to optional redemption during such Term Rate Period if such adjustment did not occur, (iii) in the case of an adjustment from a Daily Rate Period or a Weekly Rate Period to a Commercial Paper Period, the day immediately following the last day of such Daily Rate Period or Weekly Rate Period and (iv) in the case of an adjustment from a Commercial Paper Period, the day immediately following the last day of the Commercial Paper Period; and (c) the date of delivery for such Bonds to be purchased. With respect to any adjustment to a Term Rate Period, such direction of the Commission may specify redemption prices greater, and after periods longer, than those set forth in "Redemption Provisions – Optional Redemption" below, if approved by Bond Counsel. If a Favorable Opinion of Bond Counsel is required, a change to an alternate Interest Rate Period may not take place unless such Favorable Opinion of Bond Counsel is delivered on the effective date of such change.

The Paying Agent will give notice by first class mail of any adjustment to a new Interest Rate Period not less than 12 days (15 days if the then-current Interest Rate Period is a Term Rate Period, and 30 days in the case of an adjustment to a, or establishment of another, Term Rate Period) prior to the effective date of such new Interest Rate Period. Such notice will state (a) that the interest rate on the Bonds will be adjusted to a Daily Rate, Weekly Rate, Commercial Paper Rates or a Term Rate, or continue to be a Term Rate, as appropriate, unless (i) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date of such adjustment (if required) or (ii) in the case of an adjustment to a, or establishment of another, Term Rate Period, the Commission elects, on or prior to the date of determination of such Term Rate, to rescind its election to cause such adjustment, in which case the Bonds, if being adjusted from a Daily Rate Period, a Weekly Rate Period or a Commercial Paper Period, will continue to bear interest at a Daily Rate, Weekly Rate or Commercial Paper Rates as in effect immediately prior to such proposed adjustment in the Interest Rate Period, or, if being adjusted from a Term Rate Period, will bear interest at a Weekly Rate, for the period commencing on the date which would have been the effective date of such proposed Interest Rate Period; (b) the effective date of such alternate Interest Rate Period, and in the case of an adjustment to a, or the establishment of another, Term Rate Period, the last day of such Term Rate Period or in the case of an adjustment to a Commercial Paper Period, that a Calculation Period and a Commercial Paper Rate for each Bond will be determined not later than the first day of such Calculation Period; (c) that the Bonds are subject to mandatory tender for purchase on the effective date of the new Interest Rate Period; and (d) the applicable purchase price on such date.

Upon the failure of an adjustment to an alternate Interest Rate Period, the Bonds will bear interest as provided in clause (a) of the notice described above. If notice of such adjustment has been mailed to the Owners of the Bonds as provided in the Indenture and Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date as therein described (if required), the Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of such adjustment. If the Commission has not made a timely election prior to the end of any Term Rate Period that, during the next succeeding Interest Rate Period, the Bonds will bear interest at a specified interest rate, the next succeeding Interest Rate Period for the Bonds will be a Weekly Rate Period until properly adjusted otherwise.

In the event that the Commission elects to rescind its election to adjust the interest rate on the Bonds to a Term Rate, then such interest rate will not be so adjusted and the Bonds will bear interest at a Daily Rate, a Weekly Rate or Commercial Paper Rates as in effect prior to such election, or if the Bonds were to be adjusted from another Term Rate, then the Bonds will bear interest at a Weekly Rate for the period commencing on the date which would have been the effective date of such Term Rate Period. In either such case, the Bonds will continue to be subject to mandatory tender for purchase on the day which would have been the effective date of such Term Rate Period.

Establishment of an Alternate Rate

The Commission, with the prior written consent of the Remarketing Agent and the Bank, if any, is authorized to amend or supplement the Indenture to provide for (or subsequently modify) an alternate rate determination method, which may include provisions for an auction method of determination, (the "Alternate Rate") for any Series of Bonds. Such amendment shall specify the period and dates for accrual and payment of interest (an "Alternate Rate Period"), the intervals and dates at which the rate will be set by the Remarketing Agent and the intervals and procedures by which the Bonds of such Series may be subject to optional or mandatory tender and the redemption provisions for Bonds in an Alternate Rate Period. These changes will be noted on the Bonds of such Series or an amended Bond form will be provided for in the amendment in order to reflect them. The election to change the interest rate determination method is to be made by the Commission, with the prior written consent of the Remarketing Agent and the Bank, if any, in the manner prescribed by the amendment or supplement to the Indenture.

A change to an Alternate Rate Period from another Interest Rate Period shall cause a mandatory repurchase of the Bonds of the applicable Series. The notice, receipt of the prior written consent of the Remarketing Agent and the Bank, if any, and a Favorable Opinion of Bond Counsel, if required, shall apply to any such change. The effective date of a change to an Alternate Rate must be the first day of a month (except as provided in the next sentence for Bonds bearing interest at Commercial Paper Rates). If change to an Alternate Rate would take effect after a Calculation Period, then for any Bond having a Calculation Period which ends before the effective date of the Alternate Rate, the Remarketing Agent shall determine the Calculation Period that will best promote an orderly transition to the Alternate Rate Period, such that the day next succeeding the last day of all Calculation Periods with respect to such Bonds shall be the effective date of the Alternate Rate Period.

Each Alternate Rate is to be set at the minimum rate that the Remarketing Agent determines, in its sole discretion based on market conditions, would be necessary to sell all the Bonds of the applicable Series on the day the rate is set at a price (without regarding accrued interest) equal to the principal amount thereof.

The amendment to the Indenture shall establish an index and/or method by which the rate will be set, to be used if the Remarketing Agent does not set an Alternate Rate for an Alternate Rate Period or a court holds that the rate set for the Alternate Rate Period is invalid or unenforceable.

Tender Provisions

THE INDENTURE PROVIDES THAT SO LONG AS CEDE & CO. IS THE SOLE REGISTERED OWNER OF THE BONDS, ALL TENDERS FOR PURCHASE AND DELIVERIES OF BONDS TENDERED FOR PURCHASE OR SUBJECT TO MANDATORY TENDER UNDER THE PROVISIONS OF THE INDENTURE SHALL BE MADE PURSUANT TO DTC'S PROCEDURES AS IN EFFECT FROM TIME TO TIME, AND NEITHER THE STATE, THE PAYING AGENT, THE TENDER AGENT NOR THE REMARKETING AGENT SHALL HAVE ANY RESPONSIBILITY FOR OR LIABILITY WITH RESPECT TO THE IMPLEMENTATION OF SUCH PROCEDURES.

<u>Tender for Purchase Upon Election of Owner During Daily Rate Period</u>. During any Daily Rate Period, any Bond will be purchased in whole (or in part if both the amount purchased and the amount remaining unpurchased will consist of Authorized Denominations) from the Owner thereof at the option of such Owner on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, upon delivery by such Owner to the Tender Agent and the Remarketing Agent at their respective Principal Offices by no later than 11:00 a.m. on such Business Day of an irrevocable written notice which states the principal amount of such Bond and the date on which such Bond is to be purchased, which date will be the date of delivery of such notice to the Tender Agent and the Remarketing Agent. Any notice delivered to the Tender

Agent or the Remarketing Agent after 11:00 a.m., New York City time, will be deemed to have been received on the next succeeding Business Day.

Tender for Purchase Upon Election of Owner During Weekly Rate Period. During any Weekly Rate Period, any Bond will be purchased in whole (or in part if both the amount purchased and the amount remaining unpurchased will consist of Authorized Denominations) from the Owner thereof at the option of such Owner on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, upon delivery by such Owner to the Tender Agent and the Remarketing Agent at their respective Principal Offices by no later than 11:00 a.m. on such Business Day of an irrevocable written notice which states the principal amount of such Bond and the date on which such Bond is to be purchased, which date must be a Business Day not prior to the seventh day next succeeding the date of delivery of such notice to the Tender Agent and the Remarketing Agent. Any notice delivered to the Tender Agent or the Remarketing Agent after 4:00 p.m., New York City time, will be deemed to have been received by the Tender Agent on the next succeeding Business Day.

Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Calculation Period. On the day next succeeding the last day of each Calculation Period for a Bond bearing interest in a Commercial Paper Period (unless such day is the first day of a new Interest Rate Period in which case the Bonds will be subject to mandatory tender for purchase as provided in the next paragraph), the Owner of a Bond will be required to tender for purchase such Bond and such Bond will be purchased at a purchase price equal to the principal amount thereof.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Bonds will be subject to mandatory tender for purchase on the first day of each Interest Rate Period, including, in the case of an adjustment from a Term Rate Period to another Term Rate Period, the day following the last day of the then-current Term Rate Period, or on the day which would have been the first day of an Interest Rate Period had there been no occurrence of an event which resulted in the interest rate on the Bonds not being adjusted (i.e., the delivery of an election to rescind or failure to deliver a Favorable Opinion of Bond Counsel), at a purchase price equal to the principal amount of the Bonds.

Mandatory Tender for Purchase Upon Substitution, Expiration, Cancellation or Termination of Liquidity Facility. Prior to the date when the interest rate on the Bonds is established at a Term Rate until their stated maturity, if at any time the Paying Agent gives notice in accordance with the Indenture that the Bonds will, on the date specified in such notice, cease to be subject to purchase pursuant to the Liquidity Facility (other than because of an Immediate Liquidity Termination), the Bonds will be subject to mandatory tender for purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the date of purchase:

(a) on a Business Day which is the date on which the Liquidity Facility is substituted with a Substitute Liquidity Facility; or

(b) on a Business Day which is at least five days prior to (i) a cancellation of the Liquidity Facility by the Commission, (ii) a termination of the Liquidity Facility pursuant to an "Event of Default" under the Liquidity Facility, written notice of which has been delivered by the Bank to the Commission, the Remarketing Agent, the Tender Agent and the Paying Agent, or (iii) an expiration of the Liquidity Facility, except in the case of an Immediate Liquidity Termination.

Notwithstanding the foregoing, in the event that in connection with any such cancellation, termination or expiration of an existing Liquidity Facility and replacement thereof by a Substitute Liquidity Facility, the Commission delivers to the Paying Agent, the Tender Agent and the Remarketing Agent, prior to the date that notice of such cancellation, termination or expiration and substitution is given by the Paying Agent, written evidence from each Rating Agency then rating the Bonds to the effect that such cancellation, termination or expiration and substitution in and of itself will not result in the withdrawal or reduction of any rating then applicable to the Bonds, then the Bonds will not be subject to mandatory tender for purchase as provided above solely as a result of such cancellation, termination or expiration and substitution. In such case, notice of the Substitute Liquidity Facility will be provided to the Owners of the Bonds in the manner described under "THE LIQUIDITY FACILITIES AND THE BANK – Substitute Liquidity Facility" herein.

Mandatory Tender for Purchase at Election of the Commission During Term Rate Period. The Bonds are subject to mandatory tender for purchase during any Term Rate Period (other than a Term Rate Period ending on the maturity date of the Bonds) on any date during the period in which such Bonds could be optionally redeemed, as designated by the Commission, at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the date of purchase.

Irrevocable Notice Deemed to be Tender of Bonds. The giving of notice by an Owner of its election to have its Bond purchased during a Daily Rate Period or a Weekly Rate Period will constitute the irrevocable tender for purchase of such Bond regardless of whether such Bond is delivered to the Tender Agent for purchase on the relevant purchase date.

Undelivered Bonds. If funds in the amount of the purchase price of any Bond which has not been delivered to the Tender Agent, in the case of a Bond purchased at the option of the Owner on the date specified for the purchase thereof or, in the case of a Bond subject to mandatory tender for purchase, on the date specified in the Indenture, are available for payment to the Owner of such Bond on such date, from and after the date and time of that required delivery (a) such Bond will be deemed to be purchased and will no longer be deemed to be outstanding under the Resolutions and the Indenture; (b) interest will no longer accrue on such Bond; and (c) funds in the amount of the purchase price of such Bond will be held by the Tender Agent or the Paying Agent for the benefit of the Owner thereof (provided that such Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Bond to the Tender Agent at its Principal Office for delivery of Bonds. The Tender Agent may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided, but such refusal will not affect the validity of the purchase of such Bond.

Delivery Address For Tender Notices and Tendered Bonds. Notices in respect of tenders for purchase at the election of Owners during a Daily Rate Period or a Weekly Rate Period and Bonds subject to mandatory purchase as described above must be delivered to the Tender Agent. The initial address of the Tender Agent to which such notices and Bonds should be delivered is The Bank of New York Trust Company, N.A., 100 Ashford Center North, Suite 250, Atlanta, Georgia 30338.

Payment of Purchase Price. For payment of the purchase price of any Bond required to be purchased pursuant to the Indenture, such Bond must be delivered at or prior to 12:00 noon, New York City time, on the date specified in the notice relating to such purchase, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or his duly authorized attorney, with such signature guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program ("STAMP") or similar program. In the event any such Bond is delivered after 12:00 noon on such specified date, payment of the purchase price need not be made until the Business Day following the date of delivery of such Bond, but such Bond will nonetheless be deemed to have been purchased on the date specified in such notice, and no interest will accrue thereon after such date.

No Mandatory Tender for Purchase Upon Immediate Liquidity Termination. The Bonds of a Series shall not be subject to mandatory tender for purchase as a result of the occurrence of an Immediate Liquidity Termination. If the Paying Agent receives notice of the occurrence of an Immediate Liquidity Termination, within one Business Day following receipt of such notice, it shall notify the Owners of such Bonds that an Immediate Liquidity Termination has occurred. For a discussion of the circumstances under which an Immediate Liquidity Termination may occur, see "THE LIQUIDITY FACILITIES AND THE BANK."

Purchase of Bonds. Bonds of a Series required to be purchased pursuant to the Indenture will be purchased from the Owners thereof by the close of business on the date and at the purchase price at which such Bonds are required to be purchased as provided in the Indenture. Under the Indenture, funds for the payment of such purchase price shall be derived from the following sources in the order of priority indicated: (a) proceeds of the sale of such Bonds remarketed to any person pursuant to the Indenture and furnished to the Tender Agent by the Remarketing Agent for deposit in accordance with the Tender Agent Agreement into the Remarketing Account of the Bond Purchase Fund for such Series; (b) moneys furnished by the Bank to the Tender Agent pursuant to the Liquidity Facility for deposit in accordance with the Tender Agent Agreement into the Liquidity Provider Account of the Bond Purchase Fund for such Series; and (c) moneys furnished by the State to the Tender Agent pursuant to the Indenture for deposit into the Bond Purchase Fund to the extent the State has elected at its option to pay the purchase price of tendered Bonds, as described in the following paragraph.

Failure to Purchase Bonds; Resulting Applicable Interest Rate. The Indenture provides that the State, acting by and through the Commission or otherwise, shall have the option in its sole discretion, but not the obligation, to pay the purchase price of any Bonds tendered for purchase when due if moneys are not otherwise available from remarketing proceeds or funds provided under the Liquidity Facility. Nevertheless, if payment of the purchase price of any Bond of a Series shall not be made to any Owner thereof on any purchase date (a "Failed Purchase Date"), such Bond shall be returned by the Tender Agent to the Owner thereof. Thereafter, commencing on the Failed Purchase Date and ending on the date that is 75 days thereafter or, if earlier, the date that the State, by and acting through the Commission, has elected to exercise its option purchase or cause the purchase of all Bonds of such Series (and has purchased or caused the purchase of all Bonds of such Series), the Bonds of such Series shall bear interest at a floating rate per annum equal to the lesser of (i)(A) the latest BMA Index Rate published on or immediately before the Tuesday preceding the Failed Purchase Date and on each Tuesday thereafter, or the next succeeding Business Day if any such Tuesday is not a Business Day plus (B) 3.00% or (ii) the Maximum Rate. If the State has not elected to exercise its option to purchase or cause to be purchased the Bonds of such Series by the date that is 75 days after the Failed Purchase Date, then commencing on the next day and continuing thereafter until such Bonds are purchased, the interest rate applicable to such Bonds shall be the Maximum Rate. In the event that the State, by and acting through the Commission or otherwise, purchases or causes the purchase of the Bonds of such Series, such Bonds shall thereafter bear interest at any interest rate permitted by the Indenture, as determined by the Commission.

Redemption Provisions

Optional Redemption. During a Daily Rate Period or a Weekly Rate Period, the Bonds of a Series will be subject to optional redemption by the Commission, in whole or in part on any Business Day, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest, if any, to the redemption date. On the day succeeding the last day of any Calculation Period with respect to any Bond, such Bond will be subject to optional redemption by the Commission, in whole or in part, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed.

During any Term Rate Period, the Bonds will be subject to optional redemption by the Commission, in whole or in part, on the first day thereof and thereafter on any date during the periods specified below (or if approved by Bond Counsel, during the periods specified in the notice of the Commission to the Paying Agent given in connection with an election that such Bonds shall bear, or continue to bear, interest at a Term Rate), at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed (or at the redemption prices specified in the notice of the Commission to the Paying Agent referenced above), plus accrued interest, if any, to the redemption date:

Length of Term Rate Period (expressed in years)	**Redemption Period**
Greater than 15	On or after the 10th anniversary of the first day of such Term Rate Period
Less than or equal to 15 and greater than 10	On or after the 7th anniversary of the first day of such Term Rate Period
Less than or equal to 10 and greater than 7	On or after the 5th anniversary of the first day of such Term Rate Period
Less than or equal to 7 and greater than 4	On or after the 3rd anniversary of the first day of such Term Rate Period
Less than or equal to 4	On or after the 2nd anniversary of the first day of such Term Rate Period

Under the Indenture, the State and the Remarketing Agent for a Series may, not less than 15 days before the effective date of an adjustment to a (or establishment of another) Term Rate Period, give written notice to the Bank, the Tender Agent and the Paying Agent setting forth a redemption schedule different from that set forth above, accompanied by (A) the written consent of the Bank providing the applicable Liquidity Facility, if any, to be in effect for the ensuing Term Rate Period, and (B) an Opinion of Bond Counsel to the effect that such change will not adversely affect the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds of such Series; such different redemption schedule shall apply to any redemption described in the preceding paragraph for the Term Rate Period, without further action by any party.

Mandatory Redemption. Each Series of Bonds is subject to mandatory sinking fund redemption on December 1 in each of the following years and amounts at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, plus accrued interest, if any, to the redemption date:

December 1 of the Year	Principal Amount of 2006H-1 Bonds	Principal Amount of 2006H-2 Bonds	Principal Amount of 2006H-3 Bonds
2007	$ 1,955,000	$ 1,955,000	$ 1,950,000
2008	2,130,000	2,130,000	2,130,000
2009	2,325,000	2,325,000	2,320,000
2010	2,530,000	2,530,000	2,530,000
2011	2,760,000	2,760,000	2,760,000
2012	3,010,000	3,010,000	3,000,000
2013	3,280,000	3,280,000	3,270,000
2014	3,570,000	3,570,000	3,580,000
2015	3,890,000	3,890,000	3,900,000
2016	4,250,000	4,250,000	4,240,000
2017	4,630,000	4,630,000	4,620,000
2018	5,040,000	5,040,000	5,050,000
2019	5,500,000	5,500,000	5,490,000
2020	5,990,000	5,990,000	6,000,000
2021	6,530,000	6,530,000	6,540,000
2022	7,120,000	7,120,000	7,120,000
2023	7,760,000	7,760,000	7,760,000
2024	8,460,000	8,460,000	8,460,000
2025	9,220,000	9,220,000	9,220,000
2026	10,050,000*	10,050,000*	10,060,000*
Total	$100,000,000	$100,000,000	$100,000,000

* Maturity

General Redemption Provisions. At least 15 days, but not more than 60 days, prior to the redemption date for Bonds, whether such redemption be in whole or in part, the Commission will cause a notice of redemption, signed by the Paying Agent, to be mailed, first-class postage prepaid, to all Owners of Bonds to be redeemed in whole or in part; provided, however, that notices to DTC will be sent by facsimile followed by certified or registered mail. Failure to mail any such notice to any Owner or any defect in any notice so mailed will not affect the validity of the proceedings for the redemption of the Bonds of any other Owners to whom such notice was properly given. The Paying Agent will also cause such notice of redemption to be provided to the Remarketing Agent, one designated securities depository and at least two designated information services that disseminate redemption information; provided, however, that failure to give any such notice or any defect in the notice so mailed will not affect the validity of the proceedings for such redemption.

If less than all of the Bonds of any particular Series are to be redeemed, the particular Bonds to be redeemed will be selected by the Paying Agent by lot in such manner as the Paying Agent may determine; provided, however, that any Bank Bonds of such Series shall be redeemed before any other Bonds of such Series and provided further that any Bond or portion thereof that has not been called for redemption shall be in an Authorized Denomination, and for so long as Cede & Co. is the Owner of the Bonds, as nominee for DTC, such selection shall be made by DTC. If a portion of a Bond is called for redemption, a new Bond in the principal amount equal to the unredeemed portion thereof will be issued to the Owner upon surrender thereof.

Upon giving notice and depositing funds or securities with the Paying Agent as provided in the Indenture, the Bonds or portions thereof so called for redemption will become due and payable on the redemption date, and interest on such Bonds or portions thereof will cease to accrue from and after such date. If moneys are deposited with the Paying Agent in an amount sufficient to pay the redemption price of the Bonds or portions thereof called for redemption plus accrued interest thereon to the redemption date, interest on the Bonds or portions thereof called for redemption will cease to accrue, such Bonds or portions thereof will cease to be entitled to any benefits or security under the Resolutions or the Indenture or to be deemed outstanding and the Owners of such Bonds will thereafter have no rights in respect thereof except the right to receive payment of the redemption price, plus accrued interest to the redemption date.

SECURITY FOR THE BONDS

The Bonds are direct and general obligations of the State. The Bonds are issued by the Commission pursuant to powers granted to the Commission in Article VII, Section IV of the State Constitution and the Act. Article VII, Section IV, Paragraph VI of the Constitution provides:

> The full faith, credit and taxing power of the state are hereby pledged to the payment of all public debt incurred under this article and all such debt and the interest on the debt shall be exempt from taxation. Such debt may be validated by judicial proceedings in the manner provided by law. Such validation shall be incontestable and conclusive.

Article VII, Section IV, Paragraph III (a) (1) of the Constitution provides:

> General obligation debt may not be incurred until legislation is enacted stating the purposes, in general or specific terms, for which such issue of debt is to be incurred, specifying the maximum principal amount of such issue and appropriating an amount at least sufficient to pay the highest annual debt service requirements for such issue. All such appropriations for debt service purposes shall not lapse for any reason and shall continue in effect until the debt for which such appropriation was authorized shall have been incurred, but the General Assembly may repeal any such appropriation at any time prior to the incurring of such debt. The General Assembly shall raise by taxation and appropriate each fiscal year, in addition to the sum necessary to make all payments required under contracts entitled to the protection of the second paragraph of Paragraph I (a), Section VI, Article IX of the Constitution of 1976, such amounts as are necessary to pay debt service requirements in such fiscal year on all general obligation debt.

Article VII, Section IV, Paragraph III (a) (2) (A) of the Constitution provides:

> The General Assembly shall appropriate to a special trust fund to be designated "State of Georgia General Obligation Debt Sinking Fund" such amounts as are necessary to pay annual debt service requirements on all general obligation debt. The sinking fund shall be used solely for the retirement of general obligation debt payable from the fund. If for any reason the monies in the sinking fund are insufficient to make, when due, all payments required with respect to such general obligation debt, the first revenues thereafter received in the general fund of the state shall be set aside by the appropriate state fiscal officer to the extent necessary to cure the deficiency and shall be deposited by the fiscal officer into the sinking fund. The appropriate state fiscal officer may be required to set aside and apply such revenues at the suit of any holder of any general obligation debt incurred under this section.

In compliance with the above provisions of the Constitution, the General Assembly has appropriated to the "State of Georgia General Obligation Debt Sinking Fund" (the "Sinking Fund") amounts sufficient to pay the highest annual debt service requirements on all outstanding general obligation debt and on the Bonds now proposed to be issued. See "PURPOSE OF THE BONDS," "APPENDIX A - STATE OF GEORGIA - Debt and Revenue Information," and "APPENDIX B – Basic Financial Statements For Fiscal Year Ended June 30, 2005."

THE LIQUIDITY FACILITIES AND THE BANK

General

The following summarizes certain provisions of the initial Standby Bond Purchase Agreements (each a "Liquidity Facility", and collectively, the "Liquidity Facilities"), to which documents, in their entirety, reference is made for the complete provisions thereof. The provisions of any substitute Standby Bond Purchase Agreement may be different from those summarized below.

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW, THE OBLIGATION OF THE BANK TO PURCHASE THE APPLICABLE SERIES OF BONDS WILL BE AUTOMATICALLY TERMINATED WITHOUT PRIOR NOTICE OR DEMAND, AND THE TENDER AGENT WILL BE UNABLE TO REQUIRE THE PURCHASE OF SUCH BONDS UNDER THE APPLICABLE LIQUIDITY FACILITY.

Each Standby Bond Purchase Agreement will be issued in an amount equal to the original principal amount of the applicable Series of Bonds plus 189 days' accrued interest based upon an assumed interest rate of 9% per annum and a year of 365/366 days, actual days elapsed (as adjusted from time to time, the "Available Commitment"). The Tender Agent, upon compliance with the terms of the applicable Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of the applicable Series of Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Bonds plus accrued interest, if any.

The Bank's commitment to fund under each Standby Bond Purchase Agreement will terminate on the earliest of (a) the expiration date (December 21, 2011, or if such date is not a Business Day, then the next preceding Business Day), unless renewed or extended; (b) the date on which no Eligible Bonds are otherwise outstanding, provided that the Bank shall have received written notice thereof; (c) the date on which the Available Commitment and the Bank's obligation to purchase Eligible Bonds have been terminated in their entirety.

Upon the occurrence of an "Immediate Termination Event", which is defined under each Standby Bond Purchase Agreement to mean any Event of Default described in clauses (a)(i), (e), (g), (i) or (j) below, (i) the Bank's obligation to purchase Bonds shall immediately terminate without notice to the State or other action on the part of the Bank, (ii) the Available Commitment shall immediately terminate and be permanently reduced to zero, and (iii) all accrued fees and other amounts due and outstanding under the applicable Standby Bond Purchase Agreement (other than principal and interest on the Bank Bonds) shall be forthwith due and payable without demand, presentment, protest or other notice whatsoever, all of which are expressly waived by the State.

Upon the occurrence of any Event of Default as described in clause (h) below, the Bank's obligation to purchase Bonds shall be immediately and automatically suspended without notice to or other action on the part of the Bank, and the Bank will be under no further obligation to purchase Bonds unless and until the Bank's obligation to purchase Bonds has been reinstated as described in the applicable Standby Bond Purchase Agreement.

If any Event of Default under a Standby Bond Purchase Agreement occurs and is continuing, the Bank may, among other things, (i) give written notice of such event to the Tender Agent, the State and the applicable Remarketing Agent and request the Tender Agent to give notice of mandatory tender for purchase of the affected Bonds, thereby causing the Bank's obligations under such Standby Bond Purchase Agreement to terminate 30 days after the notice is received by the Tender Agent, and (ii) take any other action or remedy permitted by law to enforce the rights of such Bank under the applicable Standby Bond Purchase Agreement and any Related Document.

"Events of Default" under each Standby Bond Purchase Agreement include the following:

(a) the State shall fail to pay or cause to be paid when due (i) any amounts with respect to the principal of or interest or premium, if any, on the Bonds (including Bank Bonds, but not including principal of Bank Bonds due solely by reason of an acceleration declared by the Bank), (ii) any amounts payable for liquidity advances under such Standby Bond Purchase Agreement or (iii) any other amount payable pursuant to such Standby Bond Purchase Agreement or the Bonds (including Bank Bonds); or

(b) the State shall fail to observe or perform any covenant or agreement set forth (or incorporated by reference) in such Standby Bond Purchase Agreement with respect to amending, modifying or otherwise supplementing any Related Document in a manner that adversely affects the Bank without the prior written consent of the Bank or causing or permitting a successor Tender Agent or Remarketing Agent or causing or permitting there to be a vacancy in the position of Tender Agent or Remarketing Agent, without the prior written consent of the Bank; or

(c) the State shall fail to observe or perform any covenant or agreement contained (or incorporated by reference) in such Standby Bond Purchase Agreement (other than those covered by clauses (a) and (b) above), or in any Related Document to which it is a party or in the Bonds for 30 days after written notice thereof requesting that such default be remedied has been given to it by the Bank; or

(d) any representation, warranty, certification or statement made by the State (or incorporated by reference) in such Standby Bond Purchase Agreement or in any Related Document to which it is a party or in any certificate, financial statement or other document delivered pursuant to such Standby Bond Purchase Agreement or any Related Document shall prove to have been incorrect in any material respect when made; or

(e) the State shall fail to make payment when due in respect of any Parity Debt of the State; or

(f) an event of default or default shall have occurred and shall be continuing under any of the Related Documents; or

(g) any material provision of such Standby Bond Purchase Agreement, the Bonds or the Tender Agent Agreement relating to the payment of the principal and interest on any Bonds (including Bank Bonds) or any Parity Debt shall at any time for any reason cease to be valid and binding on the State or shall be declared to be null and void as the result of a judgment or action by any court or governmental authority or agency having jurisdiction over the State, or the State, acting through any official of the State having the authority to do so, repudiates or otherwise denies that it has any further liability or obligation under such Standby Bond Purchase Agreement with respect to the payment of principal and interest on the Bonds (including Bank Bonds) or any Parity Debt; or

(h) the State shall have (i) taken or permitted to be taken any action or has duly enacted any statute which would result in such Standby Bond Purchase Agreement not being enforceable, or (ii) acting through an official of the State having authority to do so, contested the validity or enforceability of any material provision of such Standby Bond Purchase Agreement or a Related Document (other than the Bond Purchase Agreement, Remarketing Agreement or this Official Statement) relating to the payment of principal and interest on any Bonds (including Bank Bonds) or any Parity Debt; or

(i) a debt moratorium, debt adjustment or comparable extraordinary restriction on repayment of debt shall have been declared or imposed (whether or not in writing) with respect to the Bonds or any Parity Debt of the State, or the State shall have become insolvent or admit in writing its inability to pay its debts as they mature, or the State shall seek any form of debtor relief affecting its general obligation debt, or a trustee, custodian, liquidator or receiver shall be appointed with respect to any assets of the State, or the State shall be declared by a court of competent jurisdiction or shall declare itself to be insolvent or there shall be commenced against the State in a court of competent jurisdiction any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been discharged within 30 days from the entry thereof; or

(j) the Bonds or any Parity Debt shall be rated below “Baa3” by Moody’s and “BBB-” by S&P and “BBB-” by Fitch, or such rating shall be withdrawn or suspended by each such Rating Agency (but excluding any withdrawal or suspension of any such ratings if such Rating Agency stipulates in writing that the rating action is being taken for non-credit-related reasons); or

(k) any final, nonappealable judgment or order for the payment of money in excess of $50 million shall have been rendered against the State and such judgment or order shall not have been satisfied within a period of one year from the date on which it became final and nonappealable.

Bonds purchased with money advanced under a Standby Bond Purchase Agreement become Bank Bonds and may not be remarketed unless or until the Bank has confirmed in writing to the State that the Available Commitment has been reinstated and that such Bonds are no longer considered Bank Bonds. Bank Bonds will bear interest at the applicable Bank Interest Rate or, upon the occurrence of an event of default under the applicable Standby Bond Purchase Agreement, at the Default Rate.

As consideration for the Bank’s agreement to enter into the Standby Bond Purchase Agreements, the State will pay fees to the Bank on a periodic basis and will reimburse the Bank for certain fees and expenses.

Limitations of the Standby Bond Purchase Agreements

The ability to obtain funds under each Standby Bond Purchase Agreement in accordance with its terms may be limited by federal or state law. Bankruptcy, conservatorship, receivership and similar laws governing financial institutions or any issuer of a Standby Bond Purchase Agreement may prevent or restrict payment under the Standby Bond Purchase Agreement. To the extent the short-term rating on the applicable Series of Bonds depends on the rating of the Bank, the short-term ratings on such Bonds could be downgraded or withdrawn if the Bank were to be downgraded, placed on credit watch or have its ratings suspended or withdrawn or were to refuse to perform under the applicable Standby Bond Purchase Agreement.

The obligation of the Bank to purchase unremarketed Bonds pursuant to each Standby Bond Purchase Agreement is subject to the conditions and limitations set forth therein, and is also subject to all rights and defenses available to contracting parties generally. The Standby Bond Purchase Agreements are not guarantees to pay the purchase price of Bonds tendered for purchase. The Standby Bond Purchase Agreements are general contracts, subject to certain conditions and limitations, and are not letters of credit. Purchasers of the Bonds should consult their legal counsel for an explanation of the differences between a general contract and a letter of credit or guaranty.

Substitute Liquidity Facility

So long as the interest rate on the Bonds has not been adjusted to a Term Rate longer than 13 months in duration, the State is required under the Indenture to cause a Liquidity Facility to be in effect for each Series. Subject to the conditions set forth in the Indenture, including the condition that a Favorable Opinion of Bond Counsel be delivered, the State may provide for a Substitute Liquidity Facility for the Liquidity Facility then in effect for a Series. In such event, the Bonds of such Series will be subject to mandatory purchase, except as described under "THE BONDS – Tender Provisions – Mandatory Tender for Purchase Upon Substitution, Expiration, Cancellation or Termination of Liquidity Facility" herein. ***The State may act as its own Liquidity Facility for any Series of Bonds.***

The Paying Agent is required by the Indenture to give notice by mail to the Owners then subject to purchase from a Liquidity Facility on or before the 10th day preceding the expiration of such Liquidity Facility in accordance with its terms, or any cancellation, termination or replacement of a Liquidity Facility which will cause the Bonds to cease to be subject to purchase from such Liquidity Facility ((i) except upon the occurrence of an Immediate Liquidity Termination, in which case notice will be given as provided under "THE BONDS – Tender Provisions – No Mandatory Tender for Purchase Upon Immediate Liquidity Termination" above, or (ii) even if such cancellation, termination or replacement will not result in the Bonds being subject to mandatory purchase under the circumstances described under "THE BONDS – Tender Provisions – Mandatory Tender for Purchase Upon Substitution, Expiration, Cancellation or Termination of Liquidity Facility"). Such notice is required to set forth, among other things, the date of any mandatory tender for purchase of the Bonds as described under "THE BONDS – Tender Provisions – Mandatory Tender for Purchase Upon Substitution, Expiration, Cancellation or Termination of Liquidity Facility" herein, which date will be a Business Day not later than ten (10) days after the giving of such notice and at least five (5) days prior to the cancellation, expiration or termination of the Liquidity Facility then in effect.

The Bank

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 21 billion euros as of December 31, 2005, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,000 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2005 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2005, total funding raised by Dexia and Dexia Municipal Agency was 13.2 billion euros. The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2005, Dexia had total consolidated assets of 272 billion euros, outstanding medium and long-term loans to customers of 215.60 billion euros and shareholders' equity of over 7.48 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 861 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2005, the exchange rate was 1.0000 euro equals 1.173895 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa2 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

PURPOSE OF THE BONDS

The Constitution of the State provides that the State may incur public debt of two types for public purposes: (1) general obligation debt and (2) guaranteed revenue debt. General obligation debt may be incurred to acquire, construct, develop, extend, enlarge or improve land, waters, property, highways, buildings, structures, equipment or facilities of the State, its agencies, departments, institutions and certain State authorities, to provide educational facilities for county and independent school systems, to provide public library facilities for county and independent school systems, counties, municipalities, and boards of trustees of public libraries or boards of trustees of public library systems, to make loans to counties, municipal corporations, political subdivisions, local authorities and other local government entities for water or sewerage facilities or systems, and to make loans to local government entities for regional or multijurisdictional solid waste recycling or solid waste facilities or systems. Guaranteed revenue debt may be incurred by guaranteeing the payment of certain revenue obligations issued by an instrumentality of the State as set forth in the Constitution. As of the close of business, December 1, 2006, the State had general obligation debt outstanding in an aggregate principal amount of $7,170,525,000 and guaranteed revenue debt outstanding in an aggregate principal amount of $657,705,000. See "APPENDIX A - STATE OF GEORGIA - Outstanding Debt."

The legislative authorization for the Bonds, as required by the Constitution, is in appropriations enacted as follows: House Bill 85, the Fiscal Year 2006 General Appropriations Act (Act No. 396, 2005 Ga. Laws, p. 1319, 1415 *et. seq.*); and House Bill 1026, the Fiscal Year 2006 Amended General Appropriations Act (Act No. 949). The proceeds of the Bonds are expected to be used for the purpose of financing projects and facilities for the Department of Transportation by means of the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highways, building, structures, equipment or facilities, both real and personal, necessary or useful in connection therewith.

The Act provides that the Commission shall be responsible for the proper application of the proceeds of the Bonds to the purposes for which they are incurred and that the proceeds received from the sale of the Bonds shall be held in trust by the Commission and disbursed promptly by the Commission in accordance with the original purpose set forth in the authorization of the General Assembly and in accordance with rules and regulations established by the Commission.

AUTHORIZED INDEBTEDNESS

In the 2006 Legislative Session, the General Assembly authorized and the Governor approved $1,125,675,000 in aggregate principal amount of new general obligation debt, the proceeds of which are to be used for various planned capital projects of the State, its departments and agencies. In the 2006 Legislative Session, the General Assembly also de-authorized $4,400,500 in aggregate principal amount of previously authorized general obligation debt. Taking into account the issuance of the Bonds by the Commission on behalf of the State, there will be $709,794,000 of unissued authorized indebtedness from the current year and prior years. See "APPENDIX A - STATE OF GEORGIA - Authorized Indebtedness."

THE COMMISSION

In November of 1972, the voters of the State of Georgia approved a comprehensive amendment to the Constitution of 1945 (Ga. Laws 1972, p. 1523, *et seq*., hereinafter referred to as the "Amendment") which permitted the State to finance its capital outlay needs directly through the issuance of general obligation debt. Prior to the adoption of the Amendment, the State's capital outlay needs were met through the issuance of bonds by ten separate State authorities and secured by lease rental agreements between the authorities and various State departments and agencies. The provisions of the Amendment were implemented by the General Assembly in 1973 with the enactment of the Act, and the constitutionality of the new system of State financing was favorably adjudicated by the Supreme Court of Georgia in a decision rendered on October 16, 1974, in *Sears v. State of Georgia*, 232 Ga. 547 (1974). In November of 1982, the voters of the State of Georgia ratified a new State Constitution, which became effective July 1, 1983, and such new Constitution continues the Amendment in full force and effect.

The Commission is an agency and instrumentality of the State, and its members are the Governor, the President of the Senate, the Speaker of the House of Representatives, the State Auditor, the Attorney General, the Director of the Office of Treasury and Fiscal Services and the Commissioner of Agriculture.

The Commission is responsible for the issuance of all public debt of the State, including general obligation debt and guaranteed revenue debt. The Commission is further responsible for the proper application of the proceeds of such debt to the purposes for which it is incurred.

The Commission has two statutory divisions, a Financing and Investment Division and a Construction Division, each administered by a Director who reports directly to the Commission. The Financing and Investment Division performs all services relating to the issuance of public debt, the investment and accounting of all proceeds derived from the incurring of general obligation debt or such other amounts as may be appropriated to the Commission for capital outlay purposes, the management of other State debt, and all financial advisory matters pertaining thereto. The Construction Division is responsible for all construction and construction-related matters resulting from the issuance of public debt or from any such other amounts as may be appropriated to the Commission for capital outlay purposes, except that in the case of bond proceeds for public road and bridge construction or reconstruction, the Commission contracts with the Department of Transportation or the Georgia Highway Authority for the supervision of and contracting for designing, planning, building, rebuilding, constructing, improving, operating, owning, maintaining, leasing and managing of public roads and bridges for which general obligation debt has been authorized and in all other cases when the Commission shall contract with a State department, authority or agency for the acquisition or construction of projects under the policies, standards and operating procedures established by the Commission. The Construction Division is also responsible for performing such construction-related services for State agencies and instrumentalities as may be assigned to the Commission by Executive Order of the Governor.

See "APPENDIX A - STATE OF GEORGIA - Debt and Revenue Information" for information regarding, among other things, the State's appropriations and debt limitations, State revenues, authorized indebtedness, outstanding debt, State treasury receipts, assessed valuation and debt ratios, analysis of general fund receipts and revenues. See "APPENDIX B - STATE OF GEORGIA – Basic Financial Statements for Fiscal Year Ended June 30, 2005" for information regarding, among other things, the budgetary processes, the accounting policies, the retirement systems, and the financial position of the State. See "APPENDIX C - STATE OF GEORGIA - Statistical Information" for certain information regarding the economy and population of the State.

INVESTMENT OF STATE FUNDS

All funds within the State Treasury (which include proceeds of general obligation debt administered by the Commission) are invested in accordance with Georgia law and the investment policy established by the State Depository Board (the "Investment Policy"). The Investment Policy has four objectives. Each portfolio is managed in a manner that is intended to (1) preserve principal, (2) ensure adequate liquidity, (3) obtain a market rate of return taking cash flow requirements into consideration and (4) diversify the portfolio. The Investment Policy also sets forth various credit constraints and limitations, as discussed more fully below.

The Act provides that investments of proceeds of general obligation debt shall be limited to (i) general obligations of the United States or of subsidiary corporations of the United States government fully guaranteed by such government, (ii) obligations issued by the Federal Land Bank, Federal Home Loan Bank, Federal Intermediate Credit Bank, Bank for Cooperatives, Federal Farm Credit Banks regulated by the Farm Credit Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, (iii) tax exempt obligations issued by any state, county, municipal corporation, district, or political subdivision, or civil division or public instrumentality of any such government or unit of such government, (iv) prime bankers' acceptances, (v) units of any unit investment trusts the assets of which are exclusively invested in obligations of the type described above, or (vi) shares of any mutual fund the investments of which are limited to securities of the type described in clauses (i), (ii), (iii), and (iv) above and distributions from which are treated for federal income tax purposes in the same manner as the interest on such obligations, provided that at the time of investment such obligations or the obligations held by any such unit investment trust or the obligations held or to be acquired by any such mutual fund are limited to obligations which are rated within one of the top two rating categories of any nationally recognized rating service or any rating service recognized by the State Commissioner of Banking and Finance, and no others, or to securities lending transactions involving securities of the type described in this paragraph.

The Act provides that the Sinking Fund investments shall be restricted to obligations constituting direct and general obligations of the United States government or obligations unconditionally guaranteed as to the full and timely payment of principal and interest by the United States government, maturing no longer than 12 months from date of purchase.

The State is authorized under Georgia law to invest its general fund monies in (i) bankers' acceptances; (ii) commercial paper; (iii) bonds, bills, certificates of indebtedness, notes, or other obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government including, but not limited to, obligations or securities issued or guaranteed by Banks for Cooperatives regulated by the Farm Credit Administration, the Commodity Credit Corporation, Farm Credit Banks regulated by the Farm Credit Administration, Federal Assets Financing Trusts, the Federal Financing Bank, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Financial Assistance Corporation chartered by the Farm Credit Administration, the Government National Mortgage Association, the Import-Export Bank, Production Credit Associations regulated by the Farm Credit Administration, the Resolution Trust Corporation, and the Tennessee Valley Authority; (iv) obligations of corporations organized under the laws of Georgia or any other state but only if the corporation has a market capitalization equivalent of at least $100 million; provided, however, that such obligation shall be listed as investment grade by a nationally recognized rating agency; (v) bonds, notes, warrants, and other securities not in default which are the direct obligations of the government of any foreign country which the International Monetary Fund lists as an industrialized country and for which the full faith and credit of such government has been pledged for the payment of principal and interest, provided that such securities are listed as investment grade by a nationally recognized rating agency; and, provided, further, such securities are fully negotiable and transferable; or (vi) obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation, provided that such securities are listed as investment grade by a nationally recognized rating agency and are fully negotiable and transferable. The Depository Board may also permit the lending of any securities of the type identified in this paragraph.

Georgia law also provides that the State may invest in the securities described above by selling and purchasing such obligations under agreements to resell or repurchase the obligations at a date certain in the future at a specific price which reflects a premium over the purchase or selling price equivalent to a stated rate of interest ("Repurchase Agreements").

Because of the credit constraints and limitations contained in the Investment Policy, the State is currently investing the monies on deposit in its general fund in (1) direct obligations of the United States Treasury, (2) obligations unconditionally guaranteed by agencies of the United States government; obligations of subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government, (3) Repurchase Agreements with dealers and banks that have a minimum of $75,000,000 in capital, provided that the Repurchase Agreements are collateralized by United States government obligations or securities guaranteed by agencies of the United States government with a market value of at least 102% of the Repurchase Agreement, (4) certificates of deposit with a maturity of five years or less that are collateralized by securities with a market value of at least 110% of the certificate of deposit, (5) bankers' acceptances, and (6) commercial paper.

The State is also authorized under Georgia law to invest monies on deposit in its general fund in time deposits with depositories. Pursuant to Georgia law and the Investment Policy, the State requires collateralization of time deposits in an amount equal to 110% of the time deposit.

The State Treasury also manages Georgia's Local Government Investment Pools ("Georgia Fund 1" and the "Georgia Extended Asset Pool"). The local government monies invested in Georgia Fund 1 are commingled with State operating funds in the Georgia Fund 1 portfolio. The Georgia Fund 1 portfolio maintains a Standard & Poor's AAAm rating and a maximum weighted average maturity of 60 days or less. The Georgia Extended Asset Pool consists of core deposits of the State, State agencies, and local governments. The Georgia Extended Asset Pool maintains a Standard & Poor's rating of AAAf and a maximum duration of 18 months. In addition, the State Treasury manages State health insurance fiduciary funds and State risk management fiduciary funds.

LEGAL AND TAX STATUS

Legality for Investments

The Act provides that the Bonds are securities in which all public officers and bodies of the State and all municipalities and all municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, saving banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons whatsoever who are authorized to invest in bonds or other obligations of the State may properly and legally invest funds, including capital, in their control or belonging to them. The Act further provides that the Bonds are securities which may be deposited with and shall be received by all public officers and bodies of the State and all municipalities and municipal subdivisions for any purpose for which the deposit of the Bonds or other obligations of the State may be authorized.

Tax Consequences of Owning the Bonds

Federal Tax Exemption. In the opinion of Thomas, Kennedy, Sampson & Patterson, Atlanta, Georgia, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

The opinion of Bond Counsel is subject to the condition that the State, acting by and through the Commission (in such capacity, the "Issuer") comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

State Tax Exemption. In the opinion of Bond Counsel, under existing law, interest on the Bonds is exempt from present state income taxation within the State of Georgia. Interest on the Bonds may or may not be subject to state or local income taxation in jurisdictions other than the State of Georgia. Each purchaser of the Bonds should consult his or her own tax advisor regarding the tax-exempt status of interest on the Bonds in a particular state or local jurisdiction other than the State of Georgia.

Collateral Federal Tax Consequences. Bond Counsel expresses no opinion regarding federal tax consequences arising with respect to the Bonds other than as set forth above. For example, prospective purchasers should be aware that Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry tax-exempt obligations or, in the case of a financial institution (within the meaning of Section 265(b)(5) of the Code), that portion of such financial institution's interest expense allocable to tax-exempt interest.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may also result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," and foreign corporations subject to the branch profits tax. Bond Counsel will not express any opinion as to such collateral consequences. Prospective purchasers of the Bonds should consult their tax advisors as to collateral federal income tax consequences.

VALIDATION

As required by and in accordance with the procedure of the Act, the Bonds will be validated prior to delivery by order of the Superior Court of Fulton County, Georgia.

REMARKETING AGENTS, PAYING AGENT AND TENDER AGENT

Banc of America Securities LLC has been appointed by the State, acting by and through the Commission, to serve as the initial Remarketing Agent for the 2006H-1 Bonds. It will carry out the duties and obligations provided for the Remarketing Agent in accordance with the provisions of the Indenture, the Tender Agreement and the Remarketing Agreement relating to the 2006H-1 Bonds. Its principal office for purposes of carrying out its responsibilities as Remarketing Agent for the 2006H-1 Bonds is located at Banc of America Securities LLC, 214 North Tryon Street, 14th Floor, Charlotte, North Carolina 28255, Attention: Managing Director, Variable Rate Underwriter.

Lehman Brothers Inc. has been appointed by the State, acting by and through the Commission, to serve as the initial Remarketing Agent for the 2006H-2 Bonds. It will carry out the duties and obligations provided for the Remarketing Agent in accordance with the provisions of the Indenture, the Tender Agreement and the Remarketing Agreement relating to the 2006H-2 Bonds. Its principal office for purposes of carrying out its responsibilities as Remarketing Agent for the 2006H-2 Bonds is located at Lehman Brothers Inc., Municipal Bond Department, 745 Seventh Avenue, 3rd Floor, New York, New York 10019, Attention: Variable Rate Desk.

Wachovia Bank, National Association has been appointed by the State, acting by and through the Commission, to serve as the initial Remarketing Agent for the 2006H-3 Bonds. It will carry out the duties and obligations provided for the Remarketing Agent in accordance with the provisions of the Indenture, the Tender Agreement and the Remarketing Agreement relating to the 2006H-3 Bonds. Its principal office for purposes of carrying out its responsibilities as Remarketing Agent for the 2006H-3 Bonds is located at Wachovia Bank, National Association, One Wachovia Center, 301 S. College Street, 8th Floor, Charlotte, North Carolina 28202-0600, Attention: Managing Director, Municipal Securities Group.

The Bank of New York Trust Company, N.A. has been appointed by the State, acting by and through the Commission, as the Paying Agent and the Tender Agent for the Bonds. The Tender Agent has arranged for the tender of the Bonds at The Bank of New York Trust Company, N.A., 100 Ashford Center North, Suite 520, Atlanta, Georgia 30338.

RATINGS

Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch Ratings have given the Bonds ratings of "Aaa/VMIG 1", "AAA/A-1+" and "AAA/F1+," respectively. The long-term ratings are based on the information regarding the State, and the short-term ratings are based on the Bank and the Liquidity Facility. Any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing it. Generally, rating agencies base their ratings on information and materials furnished to the agencies and on investigations, studies and assumptions by the rating agencies. There is no assurance that any rating will remain in effect for a given period of time or that any rating will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such change or withdrawal of a rating could have an adverse effect on the market price of the Bonds. Neither the Commission nor the Underwriters have undertaken any responsibility either to bring to the attention of the holders of the Bonds any proposed revision, suspension or withdrawal of a rating or to oppose any such revision, suspension or withdrawal.

LEGAL MATTERS

Legal matters incident to the validity of the Bonds are subject to the approving opinions of Thomas, Kennedy, Sampson & Patterson, Atlanta, Georgia, Bond Counsel. Bond Counsel has not been engaged to express any opinion with respect to the accuracy, completeness or sufficiency of any offering documents used in connection with the offering or sale of the Bonds. Copies of the forms of the proposed opinion of Bond Counsel are set forth in "APPENDIX E". Signed copies of the opinions for the Bonds, dated and speaking only as of the date of original delivery of the Bonds, will be available at the time of original delivery of the Bonds. See "LEGAL AND TAX STATUS," herein. Certain legal matters will be passed on for the State by its disclosure counsel, Golden & Associates, Atlanta, Georgia, and for the Underwriters by their counsel, King & Spalding LLP, Atlanta, Georgia.

ABSENCE OF CERTAIN LITIGATION

The Commission and the State, like other similar entities, are each subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. The Commission, after reviewing the current status of all pending and threatened litigation with its counsel, the Department of Law of the State, believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits that have been filed and of any actions or claims pending or threatened against the Commission or its officials in such capacity are adequately covered by insurance or self-insurance reserves maintained by the Commission or will not have a material adverse effect upon the financial position or results of operations of the Commission. The Commission, on behalf of the State, after reviewing the current status of all pending and threatened litigation with the State's counsel, the Department of Law of the State, believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits that have been filed and of any actions or claims pending or threatened against the State or its officials in such capacity are adequately covered by insurance or self-insurance reserves maintained by the State or will not have a material adverse effect upon the financial position or results of operations of the State. See "APPENDIX A - STATE OF GEORGIA - Debt and Revenue Information - Georgia Revenues, Actual and Estimated - Significant Contingent Liabilities" and "APPENDIX B -

STATE OF GEORGIA - Basic Financial Statements for Fiscal Year Ended June 30, 2005 - Combined Financial Statements - Notes to the Financial Statements - Note 13: Contingencies."

There is no controversy or litigation pending, or to the knowledge of the Commission threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or the pledge by the State of the full faith, credit and taxing power of the State to the payment of the Bonds, or the organization or powers of the Commission, including the power to issue general obligation debt on behalf of the State and to pledge the full faith, credit and taxing power of the State to the payment thereof. The State is a party to certain litigation from time to time, which the Commission believes will not have a material adverse effect upon the ability of the Commission, on behalf of the State, to issue, sell, execute and deliver the Bonds and pledge the full faith, credit and taxing power of the State to the payment thereof.

CERTIFICATION AS TO OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Chairman and Secretary of the Commission will furnish a certificate to the effect that, to the best of their knowledge, the final Official Statement does not, as of the date of delivery of the Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purpose for which the final Official Statement is to be used or which is necessary in order to make the statements contained therein, in light of the circumstances in which they were made, not misleading.

FINANCIAL STATEMENTS

The Basic Financial Statements as of and for the Fiscal Year ended June 30, 2005, included as Appendix B, have been prepared by the State Accounting Office and audited by the Department of Audits and Accounts. Constitutional and statutory provisions of the State of Georgia did not provide for a position or organizational unit responsible for the preparation of statewide financial statements prior to fiscal year 2005. However, an Executive Order, issued October 6, 2004, authorized the establishment of duties within the executive branch to prepare statewide financial statements, and on July 1, 2005, statutory provisions of the State of Georgia became effective establishing the State Accounting Office, whose duties include the preparation of consolidated financial statements for the State of Georgia and maintenance of the *Accounting Procedures Manual for the State of Georgia*.

With the change in responsibility for preparation of the Comprehensive Annual Financial Report (of which the Basic Financial Statements included as Appendix B hereto are a part), there is no longer an impairment of independence in the auditor's rendering of an opinion on these financial statements. As such, the qualification for independence that appeared in previous reports has been removed.

The audit report of the Department of Audits and Accounts is modified because of uncertainties relating to adjustments made to the Unemployment Compensation Fund (major proprietary fund) maintained by the Georgia Department of Labor. Because the Georgia Department of Labor was unable to "provide evidential matter to support $34,161,666 of the adjusting entries," the opinion of Department of Audits and Accounts relating to the *Statement of Revenues, Expenses, and Changes in Fund Net Assets* and the *Statement of Cash Flows* of this major proprietary fund was qualified. This qualification did not extend to the *Statement of Net Assets* of this major proprietary fund which, according to the Department of Audits and Accounts, is fairly presented.

According to the audit report of the Department of Audits and Accounts, the financial statements of all other major funds, aggregated remaining funds, aggregated discretely presented component units, business-type activities, and governmental activities are fairly presented, except for the effects of not maintaining adequate systems to account for leases relating to governmental activities, as explained in Appendix B.

UNDERWRITING

Banc of America Securities LLC (Series 2006 H-1), Lehman Brothers Inc. (Series 2006 H-2) and Wachovia Bank, National Association (Series 2006 H-3) (collectively, the "Underwriters") have agreed under the terms of a Bond Purchase Agreement, among the Underwriters and the Commission, (the "Bond Purchase Agreement"), to purchase all of the Bonds, if any Bonds are to be purchased, at a purchase price equal to 100% of the principal amount of the Bonds, less an Underwriters' discount of $45,000 for each Series of the Bonds. The obligations of the Underwriters to purchase the Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

Banc of America Securities LLC, Lehman Brothers Inc. and Wachovia Bank, National Association, a subsidiary of Wachovia Corporation, doing business under the trade name Wachovia Securities, are underwriting the Bonds. Wachovia Corporation conducts its investment banking, institutional and retail securities, and capital markets business through its various bank, broker-dealer and non-bank subsidiaries including Wachovia Bank, National Association under the trade name of Wachovia Securities.

CONTINUING DISCLOSURE

So long as each Series of the Bonds bears interest during a Daily Rate Period, a Weekly Rate Period or a Commercial Paper Period, the Bonds are exempt from the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). Pursuant to the Indenture and as described above, however, each Series of Bonds may be adjusted to a Term Rate Period upon which such Series of Bonds could be subject to the Rule. In consideration thereof, the State, by and through the Commission, has covenanted in the Indenture that upon such an adjustment to a Term Rate Period, the Commission will enter into a written undertaking to provide annual reports containing certain financial information and operating data relating to the State and to provide notice of material events, all in accordance with the Rule; provided, however, the Commission is not obligated under the Indenture to enter into such a written undertaking if, prior to the exercise of the adjustment to a Term Rate Period, the State provides to the Paying Agent an Opinion of Counsel that the Rule is not applicable to such Series of Bonds. The State has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

MISCELLANEOUS

The references herein to the Bonds, the Resolutions and the Indenture are brief outlines of certain provisions thereof. Such outlines do not purport to be complete. For full and complete statements of such provisions, reference is made to the Bonds, the Resolutions and the Indenture. Copies of the Resolutions and the Indenture are on file in the offices of the Commission and of the Underwriters and following the delivery of the Bonds will be on file at the principal corporate trust office of the Paying Agent.

The agreements of the Commission with the holders of the Bonds are fully set forth in the Bonds, the Resolutions and the Indenture, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement by the Commission with the purchasers of the Bonds.

The attached Appendices are integral parts of this Official Statement and should be read together with all of the foregoing statements. All estimates and other statements in this Official Statement, including the Appendices attached hereto, involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The execution of this Official Statement and its used and distribution by the Underwriters have been duly authorized and approved by the State.

/s/ Russell W. Hinton
Russell W. Hinton
Secretary and Treasurer
Georgia State Financing and Investment Commission

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APPENDIX A

STATE OF GEORGIA

Debt and Revenue Information

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STATE OF GEORGIA

General

This Appendix A to the Official Statement sets forth certain information with respect to the constitutional and statutory limitations with respect to indebtedness incurred by the State and its various institutions, departments and agencies and certain selected budgetary and financial data.

Appropriations and Debt Limitations

Article III, Section IX, Paragraph IV (b) of the Constitution of the State of Georgia (the "Constitution") provides:

> The General Assembly shall not appropriate funds for any given fiscal year which, in aggregate, exceed a sum equal to the amount of unappropriated surplus expected to have accrued in the state treasury at the beginning of the fiscal year together with an amount not greater than the total treasury receipts from existing revenue sources anticipated to be collected in the fiscal year, less refunds, as estimated in the budget report and amendments thereto.

Article III, Section IX, Paragraph V of the Constitution provides:

> In addition to the appropriations made by the general appropriations Act and amendments thereto, the General Assembly may make additional appropriations by Acts, which shall be known as supplementary appropriations Acts, provided no such supplementary appropriation shall be available unless there is an unappropriated surplus in the state treasury or the revenue necessary to pay such appropriation shall have been provided by a tax laid for such purpose and collected into the general fund of the state treasury.

Article VII, Section IV, Paragraph III (a) (1) of the Constitution provides:

> All such appropriations for debt service purposes shall not lapse for any reason and shall continue in effect until the debt for which such appropriation was authorized shall have been incurred, but the General Assembly may repeal any such appropriation at any time prior to the incurring of such debt.

Article VII, Section IV, Paragraph I of the Constitution provides that the State may incur public debt of two types for public purposes: (1) general obligation debt and (2) guaranteed revenue debt. Pursuant to subparagraph (c), (d), and (e) of Paragraph I, general obligation debt may be incurred to acquire, construct, develop, extend, enlarge or improve land, waters, property, highways, buildings, structures, equipment or facilities of the State, its agencies, departments, institutions and certain State authorities, to provide educational facilities for county and independent school systems, to provide public library facilities for county and independent school systems, counties, municipalities, and boards of trustees of public libraries or boards of trustees of public library systems, to make loans to counties, municipal corporations, political subdivisions, local authorities and other local government entities for water or sewerage facilities or systems, and to make loans to local government entities for regional or multijurisdictional solid waste recycling or solid waste facilities or systems. Pursuant to subparagraph (f) of Paragraph I, guaranteed revenue debt may be incurred by guaranteeing the payment of certain revenue obligations issued by an instrumentality of the State to finance certain specified public projects.

Article VII, Section IV, Paragraph II (b) - (e) of the Constitution provides that:

> (b) No debt may be incurred under subparagraphs (c), (d), and (e) of Paragraph I of this section or Paragraph V of this section at any time when the highest aggregate annual debt service requirements for the then current year or any subsequent year for outstanding general obligation debt and guaranteed revenue debt, including the proposed debt, and the highest aggregate annual payments for the then current year or any subsequent fiscal year of the state under all contracts then in force to which the provisions of the second paragraph of Article IX, Section VI, Paragraph I(a) of the Constitution of 1976 are applicable, exceed 10 percent of the total revenue receipts, less refunds, of the state treasury in the fiscal year immediately preceding the year in which any such debt is to be incurred.

(c) No debt may be incurred under subparagraphs (c) and (d) of Paragraph I of this section at any time when the term of the debt is in excess of 25 years.

(d) No guaranteed revenue debt may be incurred to finance water or sewage treatment facilities or systems when the highest aggregate annual debt service requirements for the then current year or any subsequent fiscal year of the state for outstanding or proposed guaranteed revenue debt for water facilities or systems or sewage facilities or systems exceed 1 percent of the total revenue receipts less refunds, of the state treasury in the fiscal year immediately preceding the year in which any such debt is to be incurred.

(e) The aggregate amount of guaranteed revenue debt incurred to make loans for educational purposes that may be outstanding at any time shall not exceed $18 million, and the aggregate amount of guaranteed revenue debt incurred to purchase, or to lend or deposit against the security of, loans for educational purposes that may be outstanding at any time shall not exceed $72 million.

In addition, Article VII, Section IV, Paragraph IV of the Constitution provides:

> The state, and all state institutions, departments and agencies of the state are prohibited from entering into any contract, except contracts pertaining to guaranteed revenue debt, with any public agency, public corporation, authority, or similar entity if such contract is intended to constitute security for bonds or other obligations issued by any such public agency, public corporation, or authority and, in the event any contract between the state, or any state institution, department or agency of the state and any public agency, public corporation, authority or similar entity, or any revenues from any such contract, is pledged or assigned as security for the repayment of bonds or other obligations, then and in either such event, the appropriation or expenditure of any funds of the state for the payment of obligations under any such contract shall likewise be prohibited.

Article VII, Section IV, Paragraph I (b) of the Constitution provides that the State may incur: "Public debt to supply a temporary deficit in the state treasury in any fiscal year created by a delay in collecting the taxes of that year. Such debt shall not exceed, in the aggregate, 5 percent of the total revenue receipts, less refunds, of the state treasury in the fiscal year immediately preceding the year in which such debt is incurred. The debt incurred shall be repaid on or before the last day of the fiscal year in which it is incurred out of taxes levied for that fiscal year. No such debt may be incurred in any fiscal year under the provisions of this subparagraph (b) if there is then outstanding unpaid debt from any previous fiscal year which was incurred to supply a temporary deficit in the state treasury." No such debt has been incurred under this provision since its inception.

See "SECURITY FOR THE BONDS" and "APPENDIX B - Combined Financial Statements - Notes to the Financial Statements - Note 1 - *Budgets*" herein.

Reserves

With respect to the revenue shortfall reserve and the midyear adjustment reserve, the Official Code of Georgia Annotated Section 45-12-93 was amended in 2005 and now provides:

a) There shall be a reserve of state funds known as the “Revenue Shortfall Reserve.”

b) The amount of all surplus in state funds existing as of the end of each fiscal year shall be reserved and added to the Revenue Shortfall Reserve. Funds in the Revenue Shortfall Reserve shall carry forward from fiscal year to fiscal year, without reverting to the general fund at the end of a fiscal year. The Revenue Shortfall Reserve shall be maintained, accumulated, appropriated, and otherwise disbursed only as provided in this Code section.

c) For each existing fiscal year, the General Assembly may appropriate from the Revenue Shortfall Reserve an amount up to 1 percent of the net revenue collections of the preceding fiscal year for funding increased K-12 needs.

d) The Governor may release for appropriation by the General Assembly a stated amount from funds in the Revenue Shortfall Reserve that are in excess of 4 percent of the net revenue of the preceding fiscal year.

e) As of the end of each fiscal year, an amount shall be released from the Revenue Shortfall Reserve to the general fund to cover any deficit by which total expenditures and contractual obligations of state funds authorized by appropriation exceed net revenue and other amounts in state funds made available for appropriation.

f) The combined Revenue Shortfall Reserve and the Midyear Adjustment Reserve existing on the effective date of this subsection shall become the Revenue Shortfall Reserve provided for in this Code section.

g) Any other provision of law notwithstanding, the General Assembly is authorized to appropriate $7 million for State Fiscal Year 2005 from the Revenue Shortfall Reserve.

h) The Revenue Shortfall Reserve shall not exceed 10 percent of the previous fiscal year’s net revenue for any given fiscal year.

Authorized Indebtedness

The following table sets forth by purpose the aggregate principal amount of general obligation debt and guaranteed revenue debt authorized by the General Assembly of the State to be issued during the fiscal years ended June 30, 1975, through June 30, 2007. The amounts of such general obligation debt and guaranteed revenue debt actually issued (including the Bonds) and the amounts authorized but unissued have been aggregated for presentation in the third and fourth columns of this table and labeled "State Obligations Issued" and "Unissued Authorized Indebtedness."

Purpose	General Obligation Debt Authorized	Guaranteed Revenue Debt Authorized	State Obligations Issued (Including The Bonds)	Unissued Authorized Indebtedness
Transportation	$3,762,755,000	$755,245,000	$4,321,600,000	$196,400,000
School Construction	3,922,685,000		3,674,100,000	248,585,000
University Facilities	3,180,855,000		3,083,953,000	96,902,000
World Congress Center	619,330,000		615,330,000	4,000,000
Human Resources Facilities	288,840,000		281,705,000	7,135,000
Port Facilities	595,715,000		577,315,000	18,400,000
Correctional Facilities	765,060,000		761,160,000	3,900,000
Public Safety Facilities	66,745,000		66,745,000	0
Georgia Bureau of Investigation	77,925,000		77,925,000	0
Georgia Department of Revenue	7,325,000		7,325,000	0
Department of Labor	43,875,000		43,875,000	0
Department of Natural Resources	519,840,000		507,560,000	12,280,000
Technical & Adult Education	901,119,000		814,492,000	86,627,000
Environmental Facilities Auth.	403,000,000	97,470,000	479,470,000	21,000,000
Dept. of Administrative Services	57,605,000		57,605,000	0
Department of Agriculture	32,530,000		32,530,000	0
Georgia Building Authority	489,810,000		486,710,000	3,100,000
Stone Mountain Memorial Assn.	48,400,000		48,400,000	0
Department of Veterans Services	9,720,000		8,970,000	750,000
Jekyll Island State Park Authority	28,190,000		28,190,000	0
Secretary of State	55,050,000		55,050,000	0
Department of Defense	16,540,000		14,825,000	1,715,000
Department of Community Affairs	8,200,000		8,200,000	0
Economic Development	149,265,000		141,265,000	8,000,000
Ga. Emergency Mgmt. Agency	200,000		200,000	0
Soil & Water Conservation	3,840,000		3,840,000	0
Department of Juvenile Justice	221,040,000		221,040,000	0
Georgia Golf Hall of Fame	6,000,000		6,000,000	0
Georgia Forestry Commission	13,875,000		13,875,000	0
Georgia Agricultural Exposition Auth.	14,055,000		14,055,000	0
Other	31,600,000		30,600,000	1,000,000
Subtotal	16,340,989,000	852,715,000	16,483,910,000	$709,794,000
1986B Refunding Bonds	441,575,000		441,575,000	
Less Bonds Refunded by 1986B	-356,325,000		-356,325,000	
1992A Refunding Bonds	169,735,000		169,735,000	
Less Bonds Refunded by 1992A	-158,755,000		-158,755,000	
1993E Refunding Bonds	599,820,000		599,820,000	
Less Bonds Refunded by 1993E	-539,580,000		-539,580,000	
GEFA Series 1997 Refunding	0	79,890,000	79,890,000	
Less Bonds Refunded by Series 1997	0	-76,400,000	-76,400,000	
GA 400 Tollway Series 1998	0	89,020,000	89,020,000	
Less Bonds Refunded by Series 1998	0	-85,585,000	-85,585,000	
1998E Refunding Bonds	142,425,000		142,425,000	
Less Bonds Refunded by 1998E	-139,115,000		-139,115,000	
2004C Refunding Bonds	458,605,000		458,605,000	
Less Bonds Refunded by 2004C	-466,670,000		-466,670,000	
2005B Refunding Bonds	425,000,000		425,000,000	
Less Bonds Refunded by 2005B	-432,005,000		-432,005,000	
Grand Total	$16,485,699,000	$859,640,000	$16,635,545,000	$709,794,000

Source: Georgia State Financing and Investment Commission

Annual Debt Service

The following table sets forth the aggregate fiscal year debt service of the State of Georgia on all general obligation and guaranteed revenue debt, excluding the Bonds, that has been issued through October 31, 2006; this table assumes the debt service schedule on all outstanding debt as of June 30, 2006, plus the debt service payable on the Series 2006D and 2006E Bonds that were issued in July 2006, plus the debt service payable on the Series 2006F and 2006G Bonds that were issued in October 2006.

Fiscal Year Ending June 30,	General Obligation Principal*	Guaranteed Revenue Principal	Total Principal	Total Interest*	Total Debt Service*
2007	$592,380,000	$37,900,000	$630,280,000	$392,921,682	$1,023,201,682
2008	572,615,000	39,300,000	611,915,000	375,078,469	986,993,469
2009	573,160,000	41,145,000	614,305,000	341,778,865	956,083,865
2010	593,255,000	43,120,000	636,375,000	307,833,280	944,208,280
2011	580,635,000	43,535,000	624,170,000	272,757,780	896,927,780
2012	516,255,000	47,675,000	563,930,000	239,891,480	803,821,480
2013	469,540,000	32,390,000	501,930,000	210,194,305	712,124,305
2014	420,115,000	34,125,000	454,240,000	184,137,956	638,377,956
2015	426,930,000	35,945,000	462,875,000	160,481,003	623,356,003
2016	380,870,000	37,840,000	418,710,000	136,801,881	555,511,881
2017	357,120,000	39,830,000	396,950,000	116,417,623	513,367,623
2018	352,360,000	41,925,000	394,285,000	96,842,359	491,127,359
2019	325,075,000	44,045,000	369,120,000	78,253,296	447,373,296
2020	291,605,000	46,305,000	337,910,000	61,188,278	399,098,278
2021	263,660,000	48,675,000	312,335,000	46,574,976	358,909,976
2022	236,545,000	21,545,000	258,090,000	32,905,003	290,995,003
2023	176,305,000	22,650,000	198,955,000	21,956,321	220,911,321
2024	164,580,000	23,810,000	188,390,000	13,262,913	201,652,913
2025	126,130,000	-	126,130,000	6,704,488	132,834,488
2026	107,585,000	-	107,585,000	2,418,350	110,003,350
2027	50,135,000	-	50,135,000	377,100	50,512,100
Totals	$7,576,855,000	$681,760,000	$8,258,615,000	$2,828,236,068	$11,357,392,406

* No adjustment was made to this table for the Market Transactions to Retire Debt (see page A-5).

Source: Georgia State Financing and Investment Commission (Amounts may not add precisely due to rounding).

Outstanding Debt

The following table sets forth the outstanding principal amount of bonded indebtedness of the State. Upon the issuance of the Bonds, there will be $709,794,000 of authorized, but unissued general obligation bond debt. There is no authorized, but unissued guaranteed revenue bond debt.

	General Obligation	Guaranteed Revenue	Total Bonds
Total Bonds Outstanding as of June 30, 2006	$6,842,900,000	$681,760,000	$7,524,660,000
Plus Additional Bonds Issued, July 1, 2006 through October 31,2006:			0
2006D & 2006E	155,190,000	0	155,190,000
2006F & 2006G	578,765,000	0	578,765,000
Subtotal (See "Annual Debt Service," above)	7,576,855,000	681,760,000	8,258,615,000
Less Scheduled Debt Retirements, July 1, 2006 through December 1, 2006	-379,445,000	-24,055,000	-403,500,000
Less Debt Retired Through Market Transactions, July 1, 2006 through November 30, 2006	-26,885,000	0	-26,885,000
Net Bonds Outstanding as of Close of Business December 1, 2006	7,170,525,000	657,705,000	7,828,230,000
Plus the Bonds (2006H)	300,000,000	0	300,000,000
Projected Total Bonds Outstanding Upon Issuance of The Bonds*	$7,470,525,000	$657,705,000	$8,128,230,000

* Less any Market Transactions effected in December 2006, prior to issuance of The Bonds.

Source: Georgia State Financing and Investment Commission

The State periodically acquires certain property and equipment through multiyear lease, purchase, or lease purchase contracts that are considered for accounting purposes to be capital lease or installment purchase obligations. The State also periodically leases land, office facilities, office and computer equipment, and other assets pursuant to leases that are considered for accounting purposes to be operating leases. For information regarding outstanding capital and operating leases entered into by the State, reference is made to Notes 8, 9, and 10 to the State's basic financial statements as of and for the Fiscal Year ended June 30, 2005, included as Appendix B. The audit report of the Department of Audits and Accounts on the basic financial statements for the Fiscal Year ended June 30, 2005 is qualified because the State did not maintain adequate systems to identify, classify, and report leases as capital or operating leases in conformity with generally accepted accounting principles.

Rate of Debt Retirement

The following table sets forth the rate of scheduled debt retirement of the State of Georgia on all outstanding bonds (including the Bonds), as of October 31, 2006.

Principal Amount Due	Amount	% of Total
In 5 Years	$3,186,095,000	38.6%
In 10 Years	$5,603,140,000	67.9%

Source: Georgia State Financing and Investment Commission

Market Transactions to Retire Debt

From time to time the State uses earnings on invested general obligation bond proceeds to purchase outstanding general obligation bonds in secondary market transactions with dealers; bonds so purchased are then cancelled and are no longer outstanding. The schedule below summarizes these transactions for the years indicated.

Fiscal Year Ended June 30	Par Value	Purchase Price (1)	Average Price Expressed as a percent of Face Value
2002	119,690,000	115,261,033.30	96.30
2003	116,765,000	104,663,584.95	89.64
2004	71,985,000	63,505,049.60	88.22
2005	36,925,000	26,695,830.70	72.30
2006	30,900,000	18,563,226.00	60.06
2007*	26,730,000	16,357,107.60	61.19

(1) Excluding Accrued Interest.
* Purchases through October 31, 2006.

Source: Georgia State Financing and Investment Commission

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Debt Statistics

Certain information and statistics regarding the debt of the State are set forth in the following tables.

STATE TREASURY RECEIPTS

The State's compliance with its Constitutional debt limitation is calculated on the basis of the Treasury Receipts (revenue receipts less refunds) set forth in the table below. The annual increase or decrease in such Treasury Receipts is set forth in the third column of the table below.

Fiscal Year Ended June 30,	Treasury Receipts	Annual Percentage Increase/Decrease
2001	15,768,578,047	5.4
2002	15,126,479,334	-4.1
2003	14,737,541,219	-2.6
2004	15,529,610,501	5.4
2005	16,788,538,429	8.1
2006 (prel.)	18,340,639,099	9.2
2007 (est.)	18,634,530,058	5.5*

Sources: Fiscal Years 2000-2004 - State of Georgia Department of Audits and Accounts; Fiscal Years 2005 and 2006 (Preliminary) - State Accounting Office; Fiscal Year 2007 (estimate) - State of Georgia Office of Planning and Budget

* 2007's % Increase based on comparison of FY2007 budget to FY2006 budget

The amounts permissible under the State's Constitutional debt limitation are set forth below:

Highest annual commitments permitted under Constitutional limitation	
10% of Treasury Receipts for Fiscal Year Ended June 30, 2005	$1,678,853,843
10% of Preliminary Treasury Receipts for Fiscal Year Ended June 30, 2006	$1,834,063,910
Highest total annual commitments in any Fiscal Year, excluding the Bonds (Highest FY2007 – see 'Outstanding Debt Service' p. A-4)	$1,023,201,682
Highest total annual commitments in any Fiscal Year, including appropriations for debt service for bonds authorized to be issued, including the Bonds (Highest FY2007)	$1,128,234,820
As a percent of Fiscal Year 2005 State Treasury Receipts	6.72%
As a percent of Fiscal Year 2006 (preliminary) State Treasury Receipts	6.15%

Sources: Georgia State Financing and Investment Commission; State Accounting Office

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ASSESSED VALUATION
(Real Estate and Personal Property)

Article VII, Section I, Paragraph II (a) of the State's Constitution provides:

"The annual levy of state ad valorem taxes on tangible property for all purposes, except for defending the state in an emergency, shall not exceed one-fourth mill on each dollar of the assessed value of the property."

The assessed valuation of real and personal property located in the State, its estimated actual value ("EAV"), and the assessed value as a percentage of the EAV are set forth in the table below.

Year	$ Assessed Valuation	$ EAV	Assessed as a % of EAV
2001	235,446,374,188	626,187,165,396	37.6
2002	254,448,585,857	669,601,541,731	38.0
2003	269,989,713,310	704,749,969,485	38.3
2004	286,613,970,559	746,390,548,332	38.4
2005	307,493,267,045	799,306,646,857	38.5

Source: State of Georgia Department of Audits and Accounts

DEBT RATIOS

The debt ratios set forth below in this table are based on the Assessed Valuation set forth in the table above and the following key statistics:

Total State Debt upon issuance of The Bonds (See "Outstanding Debt" page A-4)……………………..…	$8,128,385,000
2005 Population Estimate (1)…………………………………………………………………………..	9,072,576
2005 Total Personal Income Estimate (2)…………………………………………………………………	$282,347,000,000

Debt $ per Capita	Debt % to Personal Income	Debt % to EAV	Debt % to Assessed Valuation
$895.93	2.88%	1.02%	2.64%

(1) U.S. Department of Commerce, Bureau of the Census, July 2005 Estimate.
(2) U.S. Department of Commerce, Bureau of Economic Analysis, 2005 Preliminary, SAAR.
Source: Georgia State Financing and Investment Commission

Selected Financial Information

GEORGIA NET REVENUES, MIDYEAR ADJUSTMENT RESERVE, REVENUE SHORTFALL RESERVE, AND UNRESERVED SURPLUS BALANCE
(In Millions of Dollars)

Fiscal Year End June 30	Georgia Net Revenues	Midyear Adjustment Reserve (3)	Regular (3%)	Discretionary (2%)	Unreserved Surplus Balance
2001	14,689	147	440	294 (1)	918
2002	14,005	140	420	280	240
2003	13,625	136	261 (2)	0	0
2004	14,585	146	52	0	0

Fiscal Year End June 30	Georgia Net Revenues	Revenue Shortfall Reserve (3) Education (K-12)	Revenue Shortfall Reserve (3) Regular	Unreserved Surplus Balance
2005	15,814	158 (4)	257	0
2006*	17,339*	173* (4)	740* (5)	0

(1) Effective April 19, 2001, the maximum level of the discretionary portion of the Revenue Shortfall Reserve was increased from 1% to 2%.
(2) On February 10, 2004, the Governor signed into law H.B. 1207, enacted in the 2004 Regular Session of the General Assembly, which authorized the appropriation of $208,632,306, from the non-discretionary percentile of the Revenue Shortfall Reserve, for fiscal year FY2004, and also authorized the appropriation of $7,000,000 from such source for FY2005 (see page A-11).
(3) See page A-2, "Reserves," for additional information regarding the Midyear Adjustment Reserve and Revenue Shortfall Reserve. Although technically a reserve, prior to FY2006 the Midyear Adjustment Reserve has routinely been expended in amended appropriations acts.
The General Assembly in 2005 amended the Budget Act to consolidate the former revenue shortfall reserve and midyear adjustment reserve into a single revenue shortfall reserve.
(4) Beginning in fiscal year 2006, up to 1% of the net revenue collections of the preceding fiscal year may be used for funding increased educational (K-12) needs. The Governor's revenue estimate for FY2006 includes this Education Reserve ($158,139,967) (see page A-11).
(5) The amount by which the total Revenue Shortfall Reserve exceeds 4% of the net revenue of the preceding fiscal year may be released by the Governor for appropriation by the General Assembly. The preliminary amount over 4% is $219 million.

Sources: *Report of the State Auditor of Georgia* for the fiscal years ended June 30, 2000 through 2005;
* Fiscal Year 2006 (preliminary) - State Accounting Office

Fiscal Performance

Georgia's fiscal performance was strong in Fiscal Year 2006, reflecting strong economic growth, both nationally and in Georgia. General Fund revenues, which had shrunk in FY 2002 and FY 2003, grew for the third year in a row in FY 2006. Overall, FY 2006 General Fund revenues grew by 9.3%; tax components of the General Fund grew by 9.1%. Importantly, key components of the tax stream that are most closely associated with economic conditions experienced strong revenue growth in FY 2006. These include the individual income tax, sales and use tax and corporate income tax.

Taxes. FY 2006 individual income tax revenues grew by 10.2%. Revenue from income taxes withheld, reflecting primarily increases in wages and salaries, grew by approximately 8.3%. Estimated payments, reflecting in large measure taxes on capital gains, business income and non-salary cash compensation, grew by 24.8% in FY 2006. Individual income tax payments with final returns grew by 18.5%.

FY 2006 sales and use tax revenues grew by 9.5%. Sales and use tax growth has been especially strong in several business segments including utilities, home furnishings and equipment, lumber and apparel.

FY 2006 corporate income tax revenues grew by 18.2%. This comes on top of 49.8% growth in this category in FY 2005. Estimated payments during the fiscal year grew by 18.5% indicating strong growth in corporate income. Growth in fiscal year 2006 was bolstered by a large settlement agreement with one taxpayer which resulted in a one time payment of $39.7 million. Absent this settlement, corporate income tax growth would have equaled 12.8%

Year-to-Date ("YTD") FY 2007 Revenue Results. Through October 2006, Georgia has experienced a moderation in growth in its tax revenues in FY 2007 as compared to FY 2006. Tax revenue growth equaled 5.6% YTD. Individual income tax revenues grew by 8.0% compared to 9.5% in FY 2006. Growth in withholding and in estimated payments moderated to 6.5% and

8.9% respectively from FY 2006 growth of 9.7% and 24.7%. A decrease in refunds paid also contributed to increased FY 2007 revenue growth.

Corporate income tax revenues shrank by 26.8% YTD. YTD estimated payments have grown by 19.9%. This growth has been offset in part by a large increase in refunds paid of $71.8 million. In addition, the FY 2006 comparison period included a one time income tax assessment in excess of $39 million.

YTD sales and use tax revenues grew by 2.5% down from 8.7% in FY 2006. Note that gross sales tax collections grew by 8.5% in the period compared to 11.0% for the comparable period in FY 2006. Distributions of sales tax revenues to local governments increased by 16.4%. This increase is related to at least three factors. First, high gasoline prices caused consumers to spend a higher proportion of their total spending on gasoline and a smaller proportion on other goods. Georgia collects 1% of its 4% prepaid motor fuel tax as general sales tax revenue. Local governments tax gasoline at their full local sales tax rate. Thus, the increased proportion of spending on gasoline tends to decrease state sales tax revenues relative to local sales tax revenues.

Second, gross sales tax revenue growth in the food category was higher than in total. This group includes food for home consumption. Purchases of food for home consumption are exempt from the state sales tax, but generally subject to local sales taxes. Thus, the growth in food purchases increases local sales tax revenues relative to state sales tax revenues.

Third, Georgia has implemented an on-line system for filing sales tax returns. This capability has enabled the state to pay local distributions more quickly than the previous manual system. Because Georgia reports the net of gross revenue less local distributions as its sales tax revenues, the ability to make distributions to local governments more quickly results in a reduction in state sales tax revenue. Accelerated payments of local distributions are estimated to have reduced state sales tax revenues by approximately $48 million in the period.

Employment. While employment growth has slowed in recent months, non-farm employment growth was sturdy in Georgia in FY 2006. Job additions as measured by the increase in total non-farm employment from June 2005 to June 2006 as reported by the Bureau of Labor Statistics totaled 80,100 jobs, an increase of 2.0%. Year over year job growth moderated, however, from 2.4% in April to 1.8% in September 2006. This decline reflects the slowing national economy which has also seen job growth sag in recent months. Note that Georgia's job growth rate remains well above of the US: 1.8% compared to 1.4% for the US in September.

Several recent events are likely to impact future employment growth.

- On Sept. 14, 2004, Delta Air Lines, a major employer in the State of Georgia, declared bankruptcy. Delta continues to operate under Chapter 11. Delta's announced restructuring plans include reductions in capacity, system-wide reductions in employment of 7,000 to 9,000 jobs out of a system total of approximately 52,000 jobs and pay reductions of 7 to 10%. Georgia's Department of Economic Development estimates Delta's employment levels in Georgia at approximately 20,147 employees. This estimate represents about 0.5% of Georgia's total non-farm employment. It is believed, however, that the wage and employment impacts of the existing restructuring plan have been largely implemented. In addition, an unsolicited offer to acquire Delta has been made by U.S. Airways. At this time, the resolution of this offer is unknown, and the impact on the regional economy is also undetermined.

- General Motors has announced its intention to shut-down production at its manufacturing facility in Doraville, Georgia. This is expected to occur sometime in 2008. This plant employs approximately 3,000 workers, which represents about 0.08% of Georgia's total non-farm employment.

- Ford Motor Company shut-down production at its Hapeville, Georgia production facility. This plant had employed approximately 2,100 employees, which represents about 0.05% of Georgia's total non-farm employment.

- Kia Motors plans to build a new automobile assembly plant in West Point, Georgia. According to public announcements, this plant will employ approximately 2,900 workers. Also, five supplier companies are expected to locate nearby in Georgia and are expected to employ approximately 2,600 workers. The plant is anticipated to reach full production in 2009. A ground breaking ceremony was held on October 20, 2006.

Personal Income. Personal income is another key indicator of economic conditions in Georgia. Total personal income, relative to that of the US, grew strongly in 2005. For calendar year 2005, Georgia's personal income grew by 6.3% compared to 5.6% for the U.S. Georgia's growth ranked 16 among the U.S. states and the District of Columbia.

Personal income growth in Georgia sagged in the first quarter of calendar 2006 and fell below personal income growth in the US. While second quarter personal income growth improved its performance relative to the US performance, it fell slightly below the US growth rate.

FY 2007 Budget. While Georgia's revenue growth accelerated from FY 2004 through FY 2006, the FY 2007 budget is based upon forecasts of moderate revenue growth. The Governor's revenue estimate for FY 2007, which is not subject to change by the legislature, is based upon forecasts of 5% growth in tax revenues and 5.5% growth in total General Fund revenue. The FY 2007 General Fund revenue estimate is 1.6% above preliminary FY 2006 General Fund revenues.

Fiscal Policy Initiatives

Under Georgia law, the Governor is the State's Chief Executive and is also the *ex officio* Director of the Budget. He is assisted in financial management by an appointed Chief Financial Officer in the Office of the Governor and a Finance Council, whose membership is comprised of the Director of the Office of Planning and Budget, the State Auditor, the Commissioner of Revenue, the State Economist, the Director of Financing and Investment Division of the Georgia State Financing and Investment Commission, the State Accounting Officer, the Director of the Office of Treasury and Fiscal Services, and the Chief Financial Officer and Deputy Chief Financial Officer.

Georgia's Constitution assigns responsibility for the revenue estimate to the Governor. The Governor's determination of the revenue estimate for the budget is supported by economic forecasts, state government experts and an external Council of Economic Advisors compromised of economic experts from academia and from business.

Primary responsibility for developing forecasts of state tax and fee revenues lies with the state fiscal economist. The process used by the state economist starts with forecasts of key US and Georgia economic data which are produced by models developed by an economic forecasting firm. These forecasts are compared to publicly available forecasts such as the US and Georgia forecasts produced by the Georgia State University Economic Forecasting Center, and to consensus forecasts of the US economy.

Forecast models of revenue by tax type are then used to develop fiscal year estimates of revenue. Several forecast scenarios are developed which reflect alternative future economic conditions. These models relate future revenues to long-term time trends and short-term forecasts of economic factors.

In 2003, the Governor created a Commission for a New Georgia ("CNG"), which is a business advisory group established to recommend measures for improving the efficiency and effectiveness of State government. Over the past three years, 18 taskforces, engaging over 300 citizens have reported on key findings, issues and recommendations in the following areas:

Procurement	Space Management	Capital Construction
Fleet Management	Administrative Services	Customer Service
Workforce Development	Strategic Industries	Competitiveness
Leadership Development	Public Finance Options	Receivables Management
Tourism	Telecommunications	Technology
State Health Benefit Plan	Community Care for Behavioral Health and Developmental Disabilities	Aviation

CNG recommendations to date have assisted the State in the following accomplishments:

- The creation of a new State Accounting Office which produced the State's Comprehensive Annual Financial Report for FY2005 on a more timely basis.
- The acquisition of new contracting technology software to better manage the State's procurement.
- The development by the State Property Office of a first-ever, comprehensive, on-line data base of all State buildings and other properties owned by the State and all real estate leases and the lessors and terms of leases.
- An improved fleet management program which reduced the size of the State's vehicle fleet by ten percent and permitted the sale of surplus vehicles and equipment.
- The creation of a Leadership Development Institute to prepare high potential State employees for expanded service in government.

- The formation of a Tourism Foundation to promote public and private marketing of tourism on a coordinated basis.
- The consolidation of State energy billing and a reduction of the State's energy costs.
- A review of all State contracting practices and the completion of the State's first comprehensive construction manual.
- Improved financial management through the upgrade of the State's financial and human resource management systems and the broader utilization of best financial practices in State government.
- The development of an updated Debt Management Plan for the State.

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GEORGIA REVENUES
ACTUAL FY2003 - FY2005, PRELIMINARY FY2006, AND ESTIMATED FY2007

The following table sets forth budget-based State revenues available for appropriation.

	FY2003 (1)	FY2004 (1)	FY2005 (2)	FY2006 Preliminary (3)	FY2007 Budget (4)
GENERAL FUNDS					
Taxes: Department of Revenue					
Income Tax - Individual	$6,258,703,155	$6,826,335,378	$7,276,607,819	$8,021,933,827	$8,193,211,600
Income Tax - Corporate	511,149,761	486,970,358	729,640,400	862,730,327	828,667,200
Sales and Use Tax - General	4,727,080,926	4,860,904,312	5,215,447,136	5,711,915,442	5,926,113,200
Motor Fuel	680,687,065	731,856,759	817,833,011	821,159,527	801,759,400
Tobacco Taxes	109,264,564	227,549,406	249,070,470	241,503,374	257,458,500
Alcoholic Beverages Tax	143,585,208	153,178,078	152,459,425	157,818,125	158,927,500
Estate Tax	89,792,511	65,110,425	42,930,113	12,786,407	
Property Tax	58,938,383	63,677,784	66,489,431	72,138,489	76,113,200
Taxes: Other Organizations					
Insurance Premium Tax	323,360,835	317,462,533	331,612,139	342,982,442	348,400,000
Motor Vehicle License Tax	257,973,503	262,806,813	285,353,902	255,994,021	296,300,100
Total Taxes	13,160,535,912	13,995,851,846	15,167,443,846	16,500,961,980	16,886,950,700
Interest, Fees and Sales -					
Department of Revenue	59,961,777	118,216,712	128,113,244	199,461,999	100,000,000
Office of Treasury & Fiscal Services:					
Interest on Deposits	107,262,051	37,925,956	48,699,384	105,541,369	17,123,609
Other Fees and Sales	3,140,792	2,747,101	2,204,675	6,150,162	7,876,391
Driver Services	49,066,014	47,478,666	50,403,175	61,896,306	55,756,218
Natural Resources	43,816,036	48,449,865	47,452,336	46,958,436	46,000,000
Secretary of State	40,621,017	56,159,555	53,524,647	60,063,070	52,000,000
Labor Department	27,106,919	27,381,739	31,444,019	32,291,937	29,000,000
Human Resources	22,733,176	20,828,829	17,637,660	9,021,409	19,600,000
Banking and Finance	18,222,470	20,702,647	20,682,947	22,814,714	21,000,000
Corrections	14,255,792	13,798,294	14,546,662	13,773,686	14,100,000
Workers' Compensation	13,509,711	17,441,124	13,700,314	16,196,305	15,652,812
Public Service Commission	9,511,463	3,679,613	2,073,148	1,140,575	2,500,000
Nursing Home Provider Fees		90,608,797	101,430,308	95,606,731	99,287,176
Care Mgmt. Organization Fees				5,071,682	145,500,635
Indigent Defense Fees			27,526,643	37,422,286	27,832,122
Peace Officers' and Prosecutors' Training Funds	22,345,797	22,755,180	26,316,514	23,723,762	24,800,000
All Other Departments	32,757,730	60,618,818	60,797,145	100,663,178	47,469,811
Total Interest, Fees & Sales	464,310,745	588,792,895	646,552,821	837,797,608	725,498,774
Total General Funds (Georgia Net Revenues)	13,624,846,657	14,584,644,742	15,813,996,667	17,338,759,588	17,612,449,474
Lottery Funds	757,468,259	787,354,547	813,490,096	847,970,098	841,554,506
Indigent Care Trust Funds	172,361,389				
Tobacco Settlement Funds	182,864,915	155,986,212	159,362,266	149,348,812	177,518,387
Brain and Spinal Injury Trust Fund		1,625,000	1,689,400	4,560,600	3,007,691
Subtotal (State Treasury Receipts)	14,737,541,219	15,529,610,501	16,788,538,429	18,340,639,099	18,634,530,058
HAVA (Help America Vote Act)	4,740,448	49,208,512			
Job and Growth Tax Relief	139,191,036	139,191,036			
Other	871	8,751	-612	2,240	
Subtotal (Georgia Revenues)	14,881,473,575	15,718,018,800	16,788,537,817	18,340,641,339	18,634,530,058
Payments--Georgia Ports Authority		10,000,000		24,033,743	20,034,000
Mid-Year Adjustment/Education Rsv.		136,248,467	145,846,447	158,139,967	
Appropriation of Rev. Shortfall Rsv.		208,632,306	7,000,000		
TOTAL FUNDS AVAILABLE	**$14,881,473,575**	**$16,072,899,572**	**$16,941,384,264**	**$18,522,815,049**	**$18,654,564,058**

Sources:

(1) From the audited financial statements for the fiscal years ended June 30, 2003 to 2004, respectively of the Office of Treasury and Fiscal Services, State of Georgia (Amounts may not add precisely due to rounding)

(2) FY2005, State Accounting Office

(3) Preliminary/Unaudited Fiscal Year 2006, State Accounting Office (Amounts may not add precisely due to rounding)

(4) The Governor's Budget Report, FY2007, State of Georgia Office of Planning and Budget

GEORGIA REVENUES
FIVE-YEAR HISTORY

The following table sets forth by category the budget-based State revenues available for appropriation—Fiscal Years ending June 30.

	2002	2003	2004	2005	2006 (Preliminary)
Alcoholic Beverages Tax (1)	$145,107,017	$143,585,208	$153,178,078	$152,459,425	$157,818,125
Estate Tax	123,033,505	89,792,511	65,110,425	42,930,113	12,786,407
Income Tax – Corporate (2)	607,480,316	511,149,761	486,970,358	729,640,400	862,730,327
Income Tax – Individual (2)	6,444,614,992	6,258,703,155	6,826,335,378	7,276,607,819	8,021,933,827
Insurance Premium Tax and Fees	296,175,273	323,360,835	317,462,533	331,612,139	342,982,442
Excise and Motor Carrier Mileage Tax (3)	458,482,335	464,760,121	497,003,408	487,295,726	450,942,840
Prepaid Motor Fuel Sales Tax (4)	194,726,956	215,926,945	234,853,351	330,537,285	370,216,687
Motor Vehicle License Tax	275,131,561	257,973,503	262,806,813	285,353,902	255,994,021
Property Tax – General and Intangible	53,907,620	58,938,383	63,677,784	66,489,431	72,138,489
Sales and Use Tax - General	4,716,049,187	4,727,080,926	4,860,904,312	5,215,447,136	5,711,915,442
Tobacco Products Tax (5)	89,108,473	109,264,564	227,549,406	249,070,470	241,503,374
Total Taxes	13,403,817,235	13,160,535,912	13,995,851,846	15,167,443,845	16,500,961,980
Total Interest, Regulatory Fees and Sales	601,661,973	464,310,745	588,792,896	646,552,821	837,797,608
Total Other Revenues Retained (6)	1,121,002,193	1,256,626,917	1,133,374,058	974,541,150	1,001,881,751
Total Revenues	$15,126,481,401	$14,881,473,574	$15,718,018,800	$16,788,537,817	$18,340,641,339

(1) June 30, 2003 and prior years were reported under "Alcoholic Beverage Tax," "Malt Beverage Tax," and "Wine Tax" in prior year reports.

(2) June 30, 2003 and prior years were reported as one total under "Income Tax" in prior year reports.

(3) June 30, 2003 and prior years were reported as "Motor Fuel Tax" in prior year reports.

(4) June 30, 2003 and prior years were reported as "Sales and Use Tax - Motor Fuel" in prior year reports.

(5) June 30, 2003 and prior years were reported as "Cigar and Cigarette Tax" in prior year reports.

(6) Other Revenues Retained is comprised of HAVA, Jobs and Growth Tax Relief, Other, Lottery Funds, Indigent Care Trust Funds, Tobacco Settlement Funds, and Brain and Spinal Injury Trust Fund amounts from page A-11.

Source: Fiscal Years 2002 to 2005 *Report of the State Auditor*, State of Georgia Department of Audits and Accounts; 2006 (Preliminary), State Accounting Office

Changes in Georgia Revenues – Fiscal Year 2005 to Fiscal Year 2006 (Preliminary)

	Fiscal Year 2005	Fiscal Year 2006	Increase / (Decrease)	% Chg
Alcoholic Beverages Tax	$152,459,425	$157,818,125	$5,358,700	3.5%
Estate Tax	42,930,113	12,786,407	($30,143,706)	-70.2%
Income Tax – Corporate	729,640,400	862,730,327	$133,089,927	18.2%
Income Tax – Individual	7,276,607,819	8,021,933,827	$745,326,008	10.2%
Insurance Premium Tax and Fees	331,612,139	342,982,442	$11,370,303	3.4%
Excise and Motor Carrier Mileage Tax	487,295,726	450,942,840	($36,352,886)	-7.5%
Prepaid Motor Fuel Sales Tax	330,537,285	370,216,687	$39,679,402	12.0%
Motor Vehicle License Tax	285,353,902	255,994,021	($29,359,881)	-10.3%
Property Tax – General and Intangible	66,489,431	72,138,489	$5,649,058	8.5%
Sales and Use Tax - General	5,215,447,136	5,711,915,442	$496,468,306	9.5%
Tobacco Products Tax	249,070,470	241,503,374	($7,567,096)	-3.0%
Total Taxes	15,167,443,845	16,500,961,980	$1,333,518,135	8.8%
Total Interest, Regulatory Fees and Sales	646,552,821	837,797,608	$191,244,787	29.6%
Total Other Revenues Retained	974,541,150	1,001,881,751	$27,340,601	2.8%
Total Revenues	$16,788,537,817	$18,340,641,339	$1,552,103,522	9.2%

Source: Derived from the *2005 Report of the State Auditor* and Preliminary Fiscal Year 2006, State Accounting Office

SUMMARY OF APPROPRIATION ALLOTMENTS

The following table summarizes the appropriation allotment amounts to various areas of State government for the five fiscal years ended June 30, 2002 to 2006 (preliminary).

	Fiscal Year Ended June 30				
	2002 Amount	2003 Amount	2004 Amount	2005 Amount	2006 (Prelim.) Amount
Education:					
Grade and High	$ 6,274,700,626.00	$ 6,285,095,725.00	$ 6,179,623,506.00	$ 6,335,807,945.00	$ 6,904,933,598
Technical and Adult Education	268,477,279.00	277,871,777.00	300,389,271.00	297,052,064.00	329,481,858
University System	1,794,121,707.00	1,693,704,628.00	1,630,030,776.00	1,676,317,469.00	1,819,003,890
Total	8,337,299,612.00	8,256,672,130.00	8,110,043,553.00	8,309,177,478.00	9,053,419,346
Public Health and Welfare:					
General Services, Benefits and Operations, Medical Facilities, Construction and State Institutions	2,947,308,630.00	3,386,667,123.00	3,444,141,627.00	3,506,660,482.00	3,705,905,587
Transportation	714,203,152.86	667,076,123.00	664,624,075.44	609,723,269.00	673,196,606
Judicial, Penal and Corrections	1,371,304,725.00	1,384,611,053.00	1,363,367,865.00	1,368,314,987.00	1,480,673,345
Conservation of Resources	244,310,623.00	194,228,928.00	173,439,514.00	169,339,190.00	195,238,008
General Obligation Debt Sinking Fund	739,869,163.00	625,421,301.00	685,707,114.00	905,611,482.00	1,001,485,254
All other	1,516,863,989.00	1,650,558,440.00	1,630,061,043.00	1,686,662,726.00	1,693,836,064
Total Allotments	$15,871,159,894.86	$16,165,235,098.00	$16,071,384,791.44	$16,555,489,614.00	$17,803,754,210

Sources: Fiscal Years 2002-2004 **-** State of Georgia Department of Audits and Accounts; Fiscal Year 2005 - State Accounting Office; Fiscal Year 2006 (Preliminary) – State Accounting Office

GEORGIA DEPARTMENT OF REVENUE - UNAUDITED STATE REVENUES
(In Thousands of Dollars)

The following table sets forth unaudited net revenue collections of the State in certain categories for the first five months (July through November) of the fiscal years ended June 30, 2006 and 2007, together with certain comparative statistical information from each such fiscal year to the next.

GENERAL FUND	FY 2006	FY 2007	$ Change	% Chg
Tax Revenues:				
Income Tax - Individual	3,162,051	3,440,889	278,838	8.8%
Sales and Use Tax – General:				
Sales and Use Tax - Gross	4,066,242	4,402,830	336,588	8.3%
Local Sales Tax Distribution (1)	(1,716,476)	(2,066,413)	(349,937)	-20.4%
Sales Tax Refunds/Adjustments	(41,902)	(46,009)	(4,107)	-9.8%
Net Sales and Use Tax-General	2,307,864	2,290,408	(17,456)	-0.8%
Motor Fuel Taxes:				
Prepaid Motor Fuel Sales Tax	127,731	208,194	80,463	63.0%
Motor Fuel Excise Tax	160,105	202,792	42,687	26.7%
Total Motor Fuel Taxes	287,836	410,986	123,150	42.8%
Income Tax - Corporate	222,675	189,324	(33,351)	-15.0%
Tobacco Taxes	90,167	93,564	3,397	3.8%
Alcohol Beverages Tax	60,925	66,572	5,647	9.3%
Estate Tax	9,620	872	(8,748)	-90.9%
Property Tax	24,909	19,627	(5,282)	-21.2%
Motor Vehicle-Tag, Title & Fees	118,278	122,387	4,109	3.5%
Total Tax Revenues	6,284,325	6,634,629	350,304	5.6%
Other Revenues:				
Other Fees and Sales (2)	80,155	86,825	6,670	8.3%
Total Taxes/Other Revenues	6,364,480	6,721,454	356,974	5.6%

(1) Beginning in FY2006, the Local Sales Tax Distribution reflects the distribution for the month the collection occurred. For the current month, the distribution was determined using a weighted average % of the current month collections. All preceding month distributions will be adjusted by the over/under estimations.

(2) Other Fees and Sales include taxes and fees that have been deposited in the bank, but the returns have not been processed. It also includes unclaimed property collections. (Amounts may not add precisely due to rounding.)

Source: State of Georgia Department of Revenue

MONTHLY CASH INVESTMENTS REPRESENTING TREASURY RECEIPTS

(in Millions of Dollars)

The following table sets forth the month ending cash investments representing Treasury Receipts for the Fiscal Years 2001 through 2006.

Month	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
July	$4,102	$3,443	$1,975	$1,852	$2,481	$3,027
August	4,086	3,361	1,976	1,962	2,690	2,601
September	4,191	3,315	1,940	2,136	2,558	2,942
October	3,740	2,762	1,445	1,729	2,356	
November	3,513	2,459	1,341	1,606	2,135	
December	3,452	2,497	1,279	1,797	2,252	
January	3,720	2,854	1,859	2,329	2,977	
February	3,467	2,355	1,411	1,940	2,632	
March	3,452	2,126	1,213	1,959	2,509	
April	3,430	1,899	1,765	1,971	2,515	
May	3,677	2,158	1,907	2,264	2,918	
June	3,775	2,427	2,214	2,848	3,193	

Source: Office of Treasury and Fiscal Services

Significant Contingent Liabilities

Kelly Kennedy, et al. v. Department of Human Resources, Fulton Superior Court Civil Action No. 2005-CV-104147. The plaintiff in this case is a custodial parent receiving child support enforcement services from the Department of Human Resources' Office of Child Support Services ("OCSS"). The plaintiff filed an action seeking class certification on behalf of all custodial parents who have ever received services from OCSS, alleging contractual and tort-based claims for damages based on OCSS's alleged failure to collect statutory interest charges that may have accrued on the plaintiff's child support judgment. DHR was granted summary judgment in its favor, and the case was dismissed. However, Plaintiff's time to file an appeal has not yet expired and an appeal is expected. If the appeal is granted and the plaintiff were to succeed in obtaining class certification and to prevail on her claims, the State's estimated potential liability could be $400,000,000 or greater. OCSS contends that it has good and adequate defenses against the plaintiff's claim and intends to defend the suit vigorously on its merits and to oppose the granting of class certification.

Plymel, et al. v. Teachers' Retirement System, et al., Fulton Superior Court Civil Action No. 2004-CV-84312. The plaintiffs in this case filed a civil action seeking additional benefits retroactive to the time of each individual plaintiffs' respective retirement dates for a class of those retirees who elected survivorship options and who retired between 1983 and February 1, 2003, in the retirement plan administered by the Teachers' Retirement System of Georgia ("TRS"). Plaintiffs alleged that they are due such additional benefits for monies lost due to TRS' allegedly inappropriate use of option factors and the mortality tables implicit in them to calculate retirees' monthly benefits. Cross motions for summary judgment were pending, after a hearing held May 4, 2005.The motion for summary judgment of TRS and its Trustees was granted by order on January 9, 2006. Plaintiffs appealed, and on October 30, 2006, the Georgia Supreme Court reversed, holding that TRS should have used more current mortality tables in determining option factors. The Court remanded the case for the trial court to determine "whether, under the more current mortality tables, the appellants' optional-plan and maximum-plan benefits were actuarially equivalent" and to determine the applicable statute of limitations along with other matters. TRS moved for reconsideration, and the Court had not ruled on the motion as of December 1, 2006.

Ronald Williams, et al., v. TRS, et al., Chattooga Superior Court Civil Action No. 2006-CA 31,390 is a related case, filed in August of 2006, on behalf of plaintiff Williams by the same lawyers who represent Mr. Plymel, contains the exact same claims as the Plymel case, and was filed in order to obtain class certification for all affected TRS beneficiaries. A scheduling conference was held on November 6, 2006, and the trial court has under advisement Defendants' motion to transfer venue the setting of a date for a hearing on class certification.

Steel, Inc. v. Hardin/Russell/Mitchell, J.V., et al, v. Georgia State Financing and Investment Commission v. U.S.F&G, Travelers Casualty & Surety Co., Archer Western Contractors, Ltd., Ivey Mechanical, LLC, ELDECO Inc., National Fire Ins. Co., of Hartford, and Federal Ins. Co., Fulton Superior Court Civil Action No. 2003-CV-70191. This case, filed July 3, 2003, involves a third-party action by the joint venture construction manager, HRM, for the Georgia World Congress Center Phase IV expansion project based upon indemnity from a number of subcontractors' claims and HRM's own delay and disruption claims. The subcontractors' claims of approximately $50,000,000 were submitted to arbitration, with a ruling issued on April 21, 2005, denying the vast majority of claims and awarding approximately $5,000,000 to the subcontractors. Court-directed mediation commenced in late October 2005. HRM has included the arbitration awards in its overall mediation claim against GSFIC totaling approximately $32,000,000. GSFIC asserted counterclaims totaling $28,000,000 and has withheld retainage of $8,000,000 as a set-off to fund the GSFIC claims. The mediation was suspended for nearly a year while HRM pursued other avenues for compensation, but recently reconvened and suspended again in September 2006. Certain of the parties wish to reconvene the mediation one more time prior to trial, which is anticipated to be placed on the calendar in the summer of 2007. GSFIC believes it has good and valid defenses to many if not all of the asserted claims and intends to defend its position and to vigorously pursue its counterclaims.

Consortium for Adequate School Funding, Inc., et al. v. State of Georgia, et al., Fulton County Superior Court Civil Action No. 2004cv91004; ("*Consortium*"). This is a challenge to the State's system of funding public education brought predominantly by rural school districts. The suit claims funding is inadequate as a matter of law and violates the equal protection clause of the Georgia Constitution. Plaintiffs seek to enjoin the current funding system; they do not seek damages. However, if plaintiffs' theories prevail, the cost to the State would be significant. The State believes substantially the same issues have already been settled favorably by *McDaniel v. Thomas*, 248 Ga. 632 (1981) and is contesting the claims vigorously. The matter is currently in discovery following the granting in part of a motion to dismiss by the State Defendants. The Defendants anticipate that discovery will take at least six more months followed by a motion for summary judgment or trial on the merits.

Significant Matters

Financial Statements and Audit of the Department of Community Health. On August 15, 2001, the Georgia Department of Community Health ("DCH") contracted for a new software system for the administration of Georgia's medical assistance program ("Medicaid"), and the state children's health insurance program, popularly known as "PeachCare for Kids" (tm) (PCK). The contract also provided for third party administrative services. After the system was placed in active service on April 1, 2003, various problems and disputes arose. The problems with Phase I delayed certification of the DCH Medicaid Management Information System ("MMIS") by the federal Centers for Medicare and Medicaid Services ("CMS"), which in turn delayed related federal financial assistance for administrative costs and other issues. However, on April 20, 2005, CMS certified the MMIS, retroactive to August 1, 2003. The problems with Phase I also required DCH to make prospective payments to providers during the first years of operation because in some cases, the system could not adjudicate claims. Certain mass adjustments and reprocessing of claims were necessary to correct claims that were processed in error. The overall situation and remedial efforts resulted in both underpayments and overpayments to providers.

DCH carefully recorded all prospective payments and identified the amount paid to each payee, the amount recovered to date, and the outstanding balance due, if any. Following a recovery process common to state Medicaid programs, DCH continues to recover over payments by retaining a portion of payments resulting from the current processing of claims filed by the provider. DCH began recovering these payments in July 2003, and as of December 1, 2006, had recovered approximately $1,776,208,927, leaving a balance of approximately $6,982,073 to be collected. DCH expects to recoup a substantial portion of the balance in the normal course of business, although an uncertain, yet relatively small amount of the total prospective payments may ultimately prove to be unrecoverable.

Regarding underpayments, health care providers and attorneys for health care providers earlier notified DCH of potential legal actions for damages attributed to the Medicaid claims processing services, but DCH responded remedially and factually, and as of December 13, 2006, no claims and lawsuits were outstanding. There can be no assurance that claims and disputes will not result from the situation.

Due to the implementation problems the independent auditors did not express opinions on the FY 2003 and FY 2004 financial statements of DCH with respect to its governmental activities and general fund. However, after comprehensive claim sampling and re-pricing conducted by professional consultants specializing in State Medicaid claim review work and statistical analysis and other remedial measures, the independent auditor reported that DCH's "financial statements . . . present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Department of Community Health, as of June 30, 2005, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended ..."

DCH is currently evaluating whether there is a need to perform additional mass adjustments and reprocessing for claims adjudicated in FY's 2003 and 2004. Reprocessing continues to be a routine and prudent part of ongoing operations for errors that are found and corrected for claims paid in FY 2005 through the current period.

On June 1, 2006, (the last month of the Fiscal Year 2006), DCH began the first phase of a transition to providing Medicaid and PeachCare services through private care management organizations ("CMOs"), beginning with members living in the Atlanta and central regions of Georgia, through implementation of Georgia Healthy Families (GHF). The GHF program focuses on statewide improvements in health outcomes by consolidating fragmented systems of care and ensuring appropriate use of healthcare resources. Additionally, GHF was implemented to promote budget predictability and reduce double digit trend rates in Medicaid and PCK expenditures. On June 1, 2006, the first phase of the program enrolled 579,001 members who resided in the Atlanta and Central Service Regions in the GHF program. The four remaining regions were put into service September 1, 2006, making GHF a statewide full-risk care management system with 996,101 members enrolled as of November 1, 2006. Medicaid members considered Aged, Blind, or Disabled do not participate in the GHF and their services continue to be paid on a fee-for-service basis.

The Department contracted with three care management organizations (CMOs) to support the GHF Program. The CMOs receive fixed capitation payments. Capitation is paid prospectively, based on certain rates for each GHF member enrolled with the CMO. As a result, DCH will convert from cash basis payments to providers of Low Income Medicaid and PeachCare for Kids members to payment of capitation fees to CMO's who are serving the GHF populations. For an interim transition period, DCH will be making both capitation payments and direct fee-for-service ("FFS") payments as it works through a tail of incurred but not reported claims.

To ensure FY 2006 financial statements are fairly represented, DCH engaged an independent CPA firm to determine the potential financial impact of any Medicaid or PCK claims payment errors resulting from incorrect claims adjudication logic or from adjudication programming changes that were necessary for GHF implementation. Claims payment reviews were conducted on a statistically valid sample of FFS payments as well as 100% of all capitation claim payments. Adjustments were made to the governmental fund's asset and liability totals to reflect estimated overpayments and underpayments, respectively. Estimates were determined by management with the assistance of the independent CPA firm via an agreed upon procedures engagement and conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

As a result of the reviews, additional accounts receivable of $16,572,556 and additional accounts payable of $2,186,893 were included in the governmental fund balance sheet to be reported as of June 30, 2006 for FY 2006. The estimation process included the identification of incorrect claims adjudication logic causing payment errors. Each programming error known to have resulted in an incorrect payment has been evaluated and a work plan for correction has been established. The Department will determine which affected claims to reprocess once the correction has been implemented.

DCH continues to perform due diligence to ensure that claims are properly paid, denied, or suspended in accordance with federal and state laws and DCH policy, DCH continues to monitor claims payment accuracy and will make corrections to the system and perform claims adjustments if errors are found. If necessary, DCH will recover overpayments or correct underpayments by reconciliation of the amounts originally paid against new payment amounts determined through reprocessing.

Other Post Employment Benefits ("OPEB"). The Governmental Accounting Standards Board ("GASB") has issued two pronouncements that will impact the State's accounting and financial reporting for post employment benefits such as retiree healthcare benefits, commonly known as Other Post Employment Benefits ("OPEB"): GASB Statement 43 and GASB Statement 45 (collectively the "GASB Statements").

Briefly, the State has not previously reported in its financial statements costs associated with future participation of retirees in OPEBs. The GASB Statements are based on the premise that the "costs" of employee benefits related to employee service should be reported during the periods when that service is rendered. Beginning with the fiscal year ending June 30, 2007, the State will implement financial reporting requirements for OPEB "substantive plans" under GASB Statement 43; beginning with the fiscal year ending June 30, 2008, the State will implement accounting and financial reporting requirements as an employer under GASB Statement 45. Financial statements will report OPEB funded status and funding progress and any "premium subsidy" resulting from the pooling of retiree participants with active employees as may be required by GASB Statement 45. For "employer" OPEB reporting the State will report "expense" on an accrual basis in the amount of the "annual required contribution" and an "OPEB liability" for the amount of the "annual required contribution" that is not actually paid (with the quoted expressions of this paragraph being understood in the accounting sense and not necessarily in the strict legal sense) as may be required by GASB Statement 45.

In accounting terms, the State Health Benefit Plan, which is administered by the Board of Community Health and which provides healthcare benefits to active employees and retirees, operates on a "pay-as-you-go" basis. This is also true for the separate group health plan administered for active employees and retirees by the Board of Regents of the University System of Georgia, under its general power to govern, control and manage the University System of Georgia. Each fiscal year the General Assembly in the general appropriations act determines the amount of the State's contribution, and the Board of Community Health and the Board of Regents, respectively, reacting to input from various entities, determine plan benefits, terms and conditions and the subscription (premium) rate for participants.

Under the "pay as you go system," funds have not been set aside to pay future health care costs of retirees, but the General Assembly in response to the GASB Statements has made statutory changes to create a trust fund, in which employer contributions for future retiree health costs may be accumulated and invested and which is expected to facilitate the separate financial reporting of OPEB. (The Board of Regents has under consideration comparable procedures pursuant to its separate powers of governance.) However, the State's participation in the costs of the health benefit plans remains subject to the annual appropriations process, and the plan terms, benefits and cost to participants remain within the discretion of the Board of Community Health and the Board of Regents. This is not changed by the GASB Statements, which are financial reporting standards and do not govern fiscal management or establish legal requirements.

Policy, budget and program areas of state government are actively considering and planning proper responses to health care costs in general and including specifically retiree health costs. As a part of that process and part of the process for planning compliance with the GASB Statements, senior staff of DCH and the Board of Regents have engaged separate actuarial firms for help in strategic planning. Preliminary information from the actuaries indicates that if the annual required contribution is not funded, the resulting OPEB liability when reported in compliance with the GASB Statements will likely be material in relation to the State's currently reported liabilities (where OPEB liability is understood as it is used in the GASB Statements and not necessarily in the strict legal sense).

Preliminary information regarding the State Health Benefit Plan and the Board of Regents health plan was based on fiscal year 2004 data and assumptions prior to certain statutory and administrative plan changes. This preliminary information indicated an accrued actuarial liability (unfunded) of approximately $20 billion, which includes both the Board of Regents health plan and State Health Benefit Plan. When finally calculated, this figure will be reported in notes to financial statements and the cost of its amortization over 30 years will be a component of the annual required contribution. However, the State is not yet able to reliably quantify OPEB information, including the preliminary information described above, due to the following: (1) the preliminary studies did not account for the adoption of certain benefit changes; (2) the preliminary studies did not take into account the participation of approximately 200 local school system employers and their potential share in funding a portion of the annual required contribution ("required" in the accounting sense); and (3) the preliminary studies did not use fiscal year 2005 information regarding plan participants. Additional actuarial studies based on fiscal year 2005 data and current plan provisions are in process and reports are expected to be issued in early 2007. Neither the Board of Regents nor its management, and neither DCH nor its management, is able to make a definitive representation of financial statements relating to OPEB at the present time, and therefore the actual unfunded actuarial liability could be substantially more or less than that stated above.

Both staffs have under consideration complex matters. DCH administers the State Health Benefit Plan and a health insurance fund which combines the health insurance funds of separate health insurance programs for state employees and retirees, for teachers and retired teachers and for public school employees and their retirees, plus relatively smaller legislative and judicial programs. The employer contribution to these programs involves state funding in a variety of ways and also involves contributions from local school systems. In reporting OPEB it is important to sort out these various lines of budgetary responsibility. DCH must determine how to coordinate its administration of the new trust fund for retiree health benefits and the combined health insurance fund.

The GASB Statements require that the State base its financial reporting of OPEB on actuarial studies conducted within two years of the report. For Fiscal Year 2007 DCH and the Board of Regents will use valuations from the fiscal year ended no earlier than June 30, 2005. For Fiscal Year 2008 DCH and the Board of Regents will use valuations from the fiscal year ending June 30, 2006. DCH has engaged an actuarial firm to perform actuarial valuations in accordance with generally accepted actuarial principles for the State's OPEB for the fiscal year ended June 30, 2005.

Both the State Health Benefit Plan and the Board of Regents health plans implemented changes in regard to Medicare Part D (prescription drugs) on January 1, 2006, which are expected to have a significant OPEB impact. The State Health Benefit plan adopted a coordination of benefit change to encourage use of Part D, which DCH believes will act favorably upon OPEB liabilities and costs. The Board of Regents continued primary coverage for Part D-eligible participants. While the Board of Regents will be eligible for a federal subsidy for continuing primary coverage, the adoption of a GASB Technical Bulletin in June will prevent the Board of Regents from anticipating the subsidy in its actuarial calculation of OPEB liability. The Board of Regents will, however, be able to reduce its annual GASB 45 "expense" by the amount of the federal Part D subsidy expected to be received each year. Contrary to the State's earlier understanding, the OPEB calculations for financial statements for Fiscal Year 2007 will take into account the prescription drug changes for the State Health Benefit Plan utilizing an actuarial study conducted on the employee population for Fiscal Year 2005.

In summary, the State is in active planning for proper responses to health care costs and to OPEB costs, including retiree health care costs, (significant changes resulting from such planning already having been implemented in regard to Medicare). This active planning includes the potential implementation of remedial measures that may result in a decrease in OPEB liability. There is also active planning for current, accurate financial reporting in regard to OPEB.

For additional information on the health benefit plans and OPEB, see Note 16, "Postemployment Benefits," on page 90 in "Notes to the Financial Statements for the Year ended June 30, 2005," in Appendix B hereto. [The reference in Note 16 to the Board of Personnel Administration should be a reference to the Board of Community Health.] For additional information on the State's pension plans, see Note 15, "Retirement Systems," on page 87, also in "Notes to the Financial Statements for the Year ended June 30, 2005," in Appendix B hereto.

Certain other benefits, particularly group term life insurance programs of Regents and the Employees Retirement System, also are expected to be reported as OPEB.

Insurance

The type and amounts of insurance that are carried by the various departments of the State and the State's agencies and authorities are specified through contracts between the Department of Administrative Services and each such department, agency or authority entered into pursuant to the provisions of O.C.G.A. Title 50, Chapter 5 and other sections of the Official Code of Georgia Annotated. See "APPENDIX B - STATE OF GEORGIA - Combined Financial Statements- Notes to the Financial Statements - Note 7: Risk Management" herein.

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STATE OF GEORGIA
Basic Financial Statements
For Fiscal Year Ended
June 30, 2005

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State of Georgia

COMPREHENSIVE ANNUAL FINANCIAL REPORT JUNE 30, 2005

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State of Georgia

SONNY PERDUE, GOVERNOR

Comprehensive Annual Financial Report June 30, 2005

Prepared by
State Accounting Office

State of Georgia

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SAO
State Accounting Office

Sonny Perdue
Governor

Lynn H. Vellinga
State Accounting Officer

Fiscal Leadership for Georgia

200 Piedmont Avenue 1604 West Tower Atlanta, GA 30334 phone (404) 656-2133 fax (404) 463-5089

December 23, 2005

The Honorable Sonny Perdue
Governor of Georgia
and
Members of the General Assembly
Citizens of the State of Georgia

The Comprehensive Annual Financial Report of the State of Georgia for the year ended June 30, 2005, is hereby submitted in accordance with the Official Code of Georgia Annotated 50-50b-3(7) . Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

Format and Content of Report. The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, an organization chart and a listing of principal officials. The Financial Section contains the State Auditor's report; Management's Discussion and Analysis (MD&A); the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds and fiduciary funds, together with notes to the Basic Financial Statements; Required Supplementary Information, which includes budgetary comparison schedules; and supplementary financial data, which includes combining financial statements and schedules for individual funds. The Statistical Section provides a history of selected financial and demographic information.

This report presents information on the financial position and operations of state government as one reporting entity. The various agencies, departments, boards, commissions and other organizational units of Georgia state government which constitute the State financial reporting entity are included in the Comprehensive Annual Financial Report in accordance with criteria established by the Governmental Accounting Standards Board. Accordingly, this report contains information on Georgia's *primary government*, and on *component units* that are financially accountable to the State.

Internal Controls. Management of the State is responsible for establishing and maintaining internal accounting controls designed to ensure that assets are safeguarded and that financial transactions are properly recorded and adequately documented. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

Independent Audit. The financial statements of the organizations comprising the State reporting entity have been separately examined and reported on by either the State Auditor or independent certified public accountants. The accompanying financial statements for the State of Georgia have been prepared from the results of those examinations. The State Auditor's opinion thereon appears at the beginning of the Financial Section of this report.

Federal laws and regulations require that the State undergo an annual audit in conformity with the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to the single audit, which includes a schedule of expenditures of federal awards, a report on internal control and compliance applicable to each major program, and a schedule of findings and questioned costs, is included in a separately issued State of Georgia Single Audit Report. Also included is a report on internal control over financial reporting and compliance with certain laws, regulations, contracts and grants in accordance with *Government Auditing Standards*.

Management's Discussion and Analysis (MD&A). The discussion and analysis immediately following the report of the independent auditors provides an overview and analysis of the State's Basic Financial Statements, with a focus on the primary government and its activities. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

Structure. The Constitution of the State of Georgia provides the basic framework for the State's government, which is divided into three separate branches: legislative, executive, and judicial. The duties of each branch are outlined in the Constitution and in the Official Code of Georgia Annotated. State government services provided to citizens include education, health and welfare, transportation, public safety, economic development, recreation and conservation.

Budgetary Control. The objective of budgetary control is to ensure compliance with legal provisions embodied in the General Appropriations Act enacted by the General Assembly. Annual appropriated budgets are adopted at the departmental level and are applicable to the general, debt service and capital projects funds. All unencumbered annual appropriations lapse at fiscal year end unless otherwise specified by the Constitution or statute. The Constitution further authorizes the passage of additional Supplementary Appropriation Acts for specific purposes, provided sufficient unappropriated funds are available or additional revenue measures have been enacted. Federal funds received by the State are continually appropriated in the exact amounts and for the purposes authorized and directed by the awarding federal agency.

The budgetary basis of accounting required by state law differs materially from the basis used to report revenues and expenditures in accordance with generally accepted accounting principles (GAAP). In addition, the fund structure utilized to implement the annual budget differs extensively from the fund structure presented in these financial statements.

The separately published Report of the State Auditor is issued annually. The sole purpose of the Report of the State Auditor is to provide the General Assembly with information concerning financial compliance with the Amended Appropriations Act for the fiscal year. In contrast to issuing financial statements in accordance with generally accepted accounting principles, the financial statements presented in the Report of the State Auditor are reported in conformity with statutory requirements.

FACTORS AFFECTING FINANCIAL CONDITION

Cash Management. The State Depository Board is designated by State law as the oversight Board for Georgia's cash management and investment policies. The Office of Treasury and Fiscal Services ("OTFS") acts as the administrative agent of the Board. As more fully discussed in Notes 1 and 3 to the Basic Financial Statements, OTFS invests temporarily idle cash in statewide investment pools. All such funds are invested considering first the probable safety of capital and then probable income, while meeting daily cash flow requirements and conforming to all statutes governing the investment of public funds.

Debt Administration. The Georgia State Financing and Investment Commission, an agency of the State, is empowered by law to receive the proceeds from the issuance of State of Georgia general obligation and guaranteed revenue debt from the State, to provide for the proper application and use of the debt proceeds, and to establish the procedures for protecting the holders of such debt. Under the Constitution of the State of Georgia, the highest aggregate annual debt service (principal and interest) for all outstanding general obligation and guaranteed revenue debt may not exceed 10 percent of the previous fiscal year's revenue collections. The highest total annual commitments at June 30, 2005, were 6.01 percent of the 2004 revenue collections. At June 30, 2005, outstanding general obligation debt issues of the State of Georgia totaled \$6,183,865,000 and outstanding guaranteed revenue bonds issued by certain discretely presented component units were \$745,173,466. Subsequent to June 30, 2005, the State issued an additional \$610,715,000 of general obligation debt and \$425,000,000 of general obligation refunding debt.

At June 30, 2005, the State of Georgia maintained the following investment service bond ratings:

Moody's Investors Service	Aaa
Standard & Poor's Corporation	AAA
Fitch's Investor's Service, Incorporated	AAA

Further detailed information on outstanding bonds is reflected in the Financial Section, Notes to the Financial Statements and Statistical Section of this report.

Pension Trust Funds. Total net assets of the State's pension plans reached \$60,293,058,105 at June 30, 2005. Of the State's fifteen (15) pension trust funds, the Employees' Retirement System and the Teachers' Retirement System represent more than 96% of the total net assets. Financial activities of the pension trust funds are presented in fund level financial statements for fiduciary funds. Additional disclosures relating to the State's pension funds are provided in Note 15 to the basic financial statements.

Risk Management. The State is self-insured against certain property and liability claims, including workers' compensation and unemployment compensation. The Risk Management Funds accumulate reserves for certain property and liability risks and pay for commercial insurance coverage. Revenues are generated from premiums charged to state and local government organizations. Various risk control techniques are utilized to minimize accident-related losses; risk managers also identify unique loss exposures and develop strategies to reduce the cost of risk associated with individual business operations.

Economic Conditions and Outlook. Georgia's economy in fiscal year 2005 continued its growth cycle following the recession of 2001. The three sources of tax revenue most closely tied to economic conditions, personal income tax, corporate income tax and sales tax, all experienced healthy growth in fiscal year 2005. Compared to fiscal year 2004, personal income tax grew 6.6%, corporate income tax grew approximately 50%, and sales tax grew 7.3%. This growth in tax revenue indicates solid growth in the underlying Georgia economy.

The growth cycle followed a very tough recessionary period. Employment as measured by non-farm payrolls peaked in the first quarter of calendar year 2001 and continued to fall until the middle of 2003, the start of fiscal year 2004.

The decline in non-farm payrolls and the very low rates of growth in nominal personal income associated with this recession resulted in state revenues decreasing for fiscal years 2002 and 2003.

Employment measures for Georgia have been giving mixed signals. Non-farm employment which is measured based on a survey of establishments has been slow. Total non-farm employment grew at about 0.5% in fiscal year 2005. This slow growth was primarily due to significant decreases in employment in retail trade and manufacturing. Decreases in payrolls in these two sectors cut employment growth nearly in half. Sectors in which job growth was strong include wholesale trade, financial services, business and professional services, education and health, leisure and hospitality and government.

In contrast to the employment survey, the household survey indicates substantially strong growth in the level of employment in Georgia. The household survey indicates that 58,000 jobs were added in fiscal year 2005, an increase of about 1.4%. This is more than double the level indicated by the employment survey.

A final timely economic indicator for Georgia is total personal income. In fiscal year 2005, Georgia personal income grew at 6.8%. In comparison, personal income for the U. S. grew 6.5%.

The outlook for Georgia's economy in fiscal year 2006 is clouded by the run-up in energy prices caused by hurricanes in the energy producing Gulf of Mexico. The initial quarter of fiscal year 2006 saw tax revenue growth of over 9% and non-farm employment growth of about 26,000 jobs. In addition, the bankruptcy proceeding of a major employer, Delta Air Lines, is likely to be a drag on growth. Despite these concerns, the overall outlook remains generally positive. State revenues are projected to grow at about 6.1% overall.

MAJOR INITIATIVES

Executive Orders for Reduction of Taxes on Energy. The State was impacted by the high cost of fuel resulting from the impact of hurricane Katrina. Through an executive order, approved by the legislature, the Governor suspended tax collections on motor fuel sales for the month of September 2005, saving Georgia drivers approximately $75 million. An executive order in December 2005 reduced the sales tax on natural gas during the peak heating months of January through April 2006 and reduced the sales tax on liquid propane from January through March 2006. This order will provide tax savings to consumers ranging from $16 to $20 million and prevents the State from reaping a revenue windfall from the high cost of these fuels.

Increased Education Funding. With the improvement in the economy and increases in tax revenues in the last two years, funding for education has been enhanced to improve the quality of education and also to address growth of approximately 2.5 percent per year.

Control of Health Care Costs. Increased health care costs related to Medicaid and employee health benefits continue to place strains on the State's budget. The State is implementing a managed care plan for Medicaid and PeachCare as well as other initiatives to control costs.

Commission for a New Georgia. The Commission for a New Georgia was created in June 2003 as part of the Governor's desire to improve the culture of State government. The Commission is an innovative public-private partnership formed to create breakthrough ideas to help Georgia become a better-managed state and to envision Georgia's strategic future. The Commission brings together some of Georgia's best and brightest to create innovative solutions that will help Georgians save money, grow the State's economy, and make Georgia's residents healthier, safer, and well-educated. Implementation efforts have been initiated for many of the Commission's recommendations including: procurement, financial management, asset management, customer service, and others.

State Accounting Office. Previously operating under Executive Order, the State Accounting Office was statutorily created effective July 1, 2005. Duties of this Office include preparation of the State's Comprehensive Annual Financial Report, which was formerly prepared by the Department of Audits and Accounts. With the change in responsibility for preparation of this report, there is no longer an impairment of independence in the Auditor's rendering of an opinion on the Comprehensive Annual Financial Report. As such, the qualification for independence that appeared in previous reports has been removed.

CONCLUSION

Compilation of Transmittal Letter
This transmittal letter has been compiled utilizing information contributed by various State management sources. We express our appreciation to the State Agencies and the Department of Audits and Accounts for their dedicated efforts in completing this report and audit during this transition year.

Respectfully submitted,

Lynn H. Vellinga, CPA
State Accounting Officer

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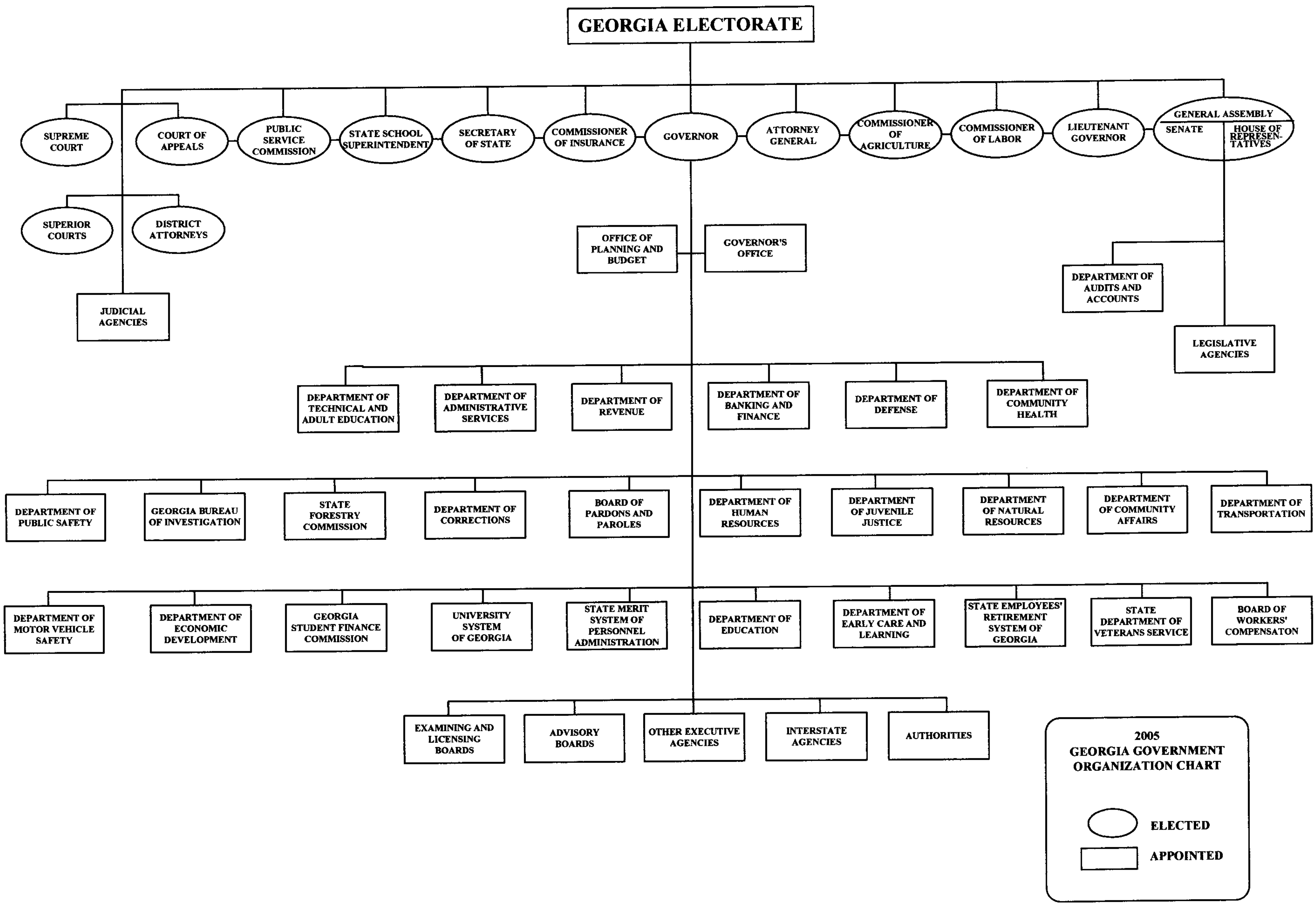
GEORGIA ELECTORATE
SUPREME COURT
COURT OF APPEALS
PUBLIC SERVICE COMMISSION
STATE SCHOOL SUPERINTENDENT
SECRETARY OF STATE
COMMISSIONER OF INSURANCE
GOVERNOR
ATTORNEY GENERAL
COMMISSIONER OF AGRICULTURE
COMMISSIONER OF LABOR
LIEUTENANT GOVERNOR
GENERAL ASSEMBLY
SENATE
HOUSE OF REPRESEN-TATIVES
SUPERIOR COURTS
DISTRICT ATTORNEYS
JUDICIAL AGENCIES
OFFICE OF PLANNING AND BUDGET
GOVERNOR'S OFFICE
DEPARTMENT OF AUDITS AND ACCOUNTS
LEGISLATIVE AGENCIES
DEPARTMENT OF TECHNICAL AND ADULT EDUCATION
DEPARTMENT OF ADMINISTRATIVE SERVICES
DEPARTMENT OF REVENUE
DEPARTMENT OF BANKING AND FINANCE
DEPARTMENT OF DEFENSE
DEPARTMENT OF COMMUNITY HEALTH
DEPARTMENT OF PUBLIC SAFETY
GEORGIA BUREAU OF INVESTIGATION
STATE FORESTRY COMMISSION
DEPARTMENT OF CORRECTIONS
BOARD OF PARDONS AND PAROLES
DEPARTMENT OF HUMAN RESOURCES
DEPARTMENT OF JUVENILE JUSTICE
DEPARTMENT OF NATURAL RESOURCES
DEPARTMENT OF COMMUNITY AFFAIRS
DEPARTMENT OF TRANSPORTATION
DEPARTMENT OF MOTOR VEHICLE SAFETY
DEPARTMENT OF ECONOMIC DEVELOPMENT
GEORGIA STUDENT FINANCE COMMISSION
UNIVERSITY SYSTEM OF GEORGIA
STATE MERIT SYSTEM OF PERSONNEL ADMINISTRATION
DEPARTMENT OF EDUCATION
DEPARTMENT OF EARLY CARE AND LEARNING
STATE EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
STATE DEPARTMENT OF VETERANS SERVICE
BOARD OF WORKERS' COMPENSATON
EXAMINING AND LICENSING BOARDS
ADVISORY BOARDS
OTHER EXECUTIVE AGENCIES
INTERSTATE AGENCIES
AUTHORITIES
2005
GEORGIA GOVERNMENT ORGANIZATION CHART
ELECTED
APPOINTED

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State of Georgia

Principal State Officials
June 30, 2005

Executive:

Sonny Perdue
Governor

Cathy Cox
Secretary of State

Thurbert E. Baker
Attorney General

Michael L. Thurmond
Commissioner of Labor

Kathy Cox
State Superintendent of Schools

John W. Oxendine
Commissioner of Insurance

Thomas T. Irvin
Commissioner of Agriculture

H. Doug Everett, Chairman
Robert "Bobby" Baker, Jr.
David L. Burgess
Angela Elizabeth Speir
Stan Wise
Public Service Commission

Legislative:

Mark Taylor
Lieutenant Governor/President of the Senate

Glenn Richardson
Speaker of the House of Representatives

Judicial:

Norman S. Fletcher
(Leah Sears effective July 1, 2005)
Chief Justice of the Supreme Court

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FINANCIAL SECTION

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DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St. S.W. Suite 1-156
Atlanta, Georgia 30334

RUSSELL W. HINTON
STATE AUDITOR
(404) 656-2174

INDEPENDENT AUDITOR'S REPORT

The Honorable Sonny Perdue
Governor of Georgia
and
Members of the General Assembly
of the State of Georgia

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregated discretely presented component units, each major fund, and the aggregated remaining fund information of the State of Georgia as of and for the year ended June 30, 2005 which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management of the State of Georgia. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain organizations. These organizations reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/Additions
Governmental Activities	14%	21%
Business-Type Activities	4%	30%
Aggregate Discretely Presented Component Units	92%	93%
Governmental Fund - General Fund	16%	21%
Governmental Fund - Georgia State Financing and Investment Commission	100%	100%
Proprietary Fund/Enterprise Fund -State Employees' Health Benefit Plan	100%	100%
Aggregate Remaining Fund Information	91%	50%

The financial statements of these organizations and component units were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for those financial statements, is based solely upon the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Georgia Lottery Corporation, Georgia College and State University Foundation, Georgia Southern University Housing Foundation, Inc., Georgia State University

Foundation, Georgia Tech Athletic Association, Georgia Tech Facilities, Inc., Georgia Tech Foundation, Inc., Kennesaw State University Foundation, Inc., Medical College of Georgia Foundation, Inc., University of Georgia Athletic Association, Inc., and the University of Georgia Foundation were audited in accordance with auditing standards generally accepted in the United States of America but were not audited in accordance *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

Georgia statutes, in addition to audit responsibilities, entrust other responsibilities to the Department of Audits and Accounts. Those responsibilities included the maintenance of the *Accounting Procedures Manual for the State of Georgia* and service by the State Auditor on the governing boards of various agencies, authorities, commissions, and component units of the State of Georgia. Except for the State Depository Board, which is the oversight board for the Office of Treasury and Fiscal Services, the Department of Audits and Accounts elected to not provide audit services for the organizational units of the State of Georgia associated with these boards. The Department of Audits and Accounts has also elected to not provide audit services for the Department of Community Health (DCH) due to a contractual obligation with DCH to conduct certain non-audit services.

Constitutional and statutory provisions of the State of Georgia did not provide for a position or organizational unit responsible for the preparation of statewide financial statements during fiscal year 2005. However, on July 1, 2005, statutory provisions of the State of Georgia became effective establishing the State Accounting Office whose duties included the preparation of consolidated financial statements for the State of Georgia and maintenance of the *Accounting Procedures Manual for the State of Georgia*. The accompanying financial statements referred to in the first paragraph were prepared by the State Accounting Office.

As discussed in Notes 8 and 9 to the basic financial statements, the State of Georgia did not maintain adequate systems to identify, classify, and report leases as operating leases (lessee) or capital leases in conformity with accounting principles generally accepted in the United States of America. We were unable to determine the effect these limitations had on the financial statements.

The major proprietary fund - Unemployment Compensation Fund, maintained by the Georgia Department of Labor, restated net assets at June 30, 2004 in the amount of $138,411,632. The Georgia Department of Labor, however, did not provide evidential matter to support $34,161,666 of the adjusting entries. We were unable to determine the effect this limitation had on the *Statement of Revenues, Expenses, and Changes in Fund Net Assets* and the *Statement of Cash Flows*.

In our opinion, based on our audit and the reports of other auditors, except for the effects of not maintaining adequate systems to account for leases as described in the fifth paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities of the State of Georgia as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding adjustments to net assets at June 30, 2004 referred to in the sixth paragraph, the *Statement of Revenues, Expenses, and Changes in Fund Net Assets* and the *Statement of Cash Flows*, present fairly, in all material respects, the changes in financial position and cash flows thereof for the major proprietary fund – Unemployment Compensation Fund for the year ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the *Statement of Net Assets* of the major proprietary fund – Unemployment Compensation Fund present fairly, in all material respects, the financial position of the major proprietary fund – Unemployment Compensation Fund as of June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business-type activities, the aggregated discretely presented component units, the General Fund, the Georgia State Financing and Investment Commission, State Employees' Health Benefit Plan, Higher Education Fund, and the aggregated remaining fund information of the State of Georgia as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the general fund reflect accounts payable in the amount of $758,104,038 which represents the State of Georgia's liability for teachers salaries earned before June 30, 2005, but not paid until July and August, 2005. State appropriations for the subsequent fiscal year were available for obligation even though the period to which the appropriation applied had not begun. The recognition of this liability at June 30, 2005, however, is not in accordance with generally accepted accounting principles as promulgated by Governmental Accounting Standards Board (GASB) Statement 33 because the subsequent fiscal year had not begun. We believe, however, the omission of this liability would cause the financial statements of the State of Georgia to be misleading.

As discussed in Note 2 to the basic financial statements, the State of Georgia changed its methodology of applying GASB Statement 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*.

In accordance with *Government Auditing Standards*, we will issue our report dated December 23, 2005, on our consideration of the State of Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 7 through 17, the schedule of funding progress for the Employees' Retirement System of Georgia on page 95, and the budgetary comparison schedule and accompanying notes on pages 96 through 100 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Georgia's basic financial statements. The combining statements and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory and Statistical Sections as listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,

Russell W. Hinton

Russell W. Hinton, CPA, CGFM
State Auditor

December 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Georgia provides this *Management's Discussion and Analysis* of the State of Georgia's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Georgia is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found in the Introductory Section of this report, and with the State's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

Government-Wide
The assets of the State exceeded its liabilities at the close of the fiscal year by $20.6 billion (reported as *"net assets")*. Of this amount, $1.7 billion (reported as *"unrestricted net assets"*) may be used to meet the State's ongoing obligations to citizens and creditors. Component units of the State reported net assets of $4.3 billion for the fiscal year ended June 30, 2005. The State's total net assets (including restatement of the prior year balance) decreased by $135 million.

Fund Level
Governmental Funds – As of the close of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $4.6 billion, with $725 million of this total available for spending at the government's discretion (*unreserved fund balance*).

Proprietary Funds – Net assets at the end of fiscal year 2005 totaled $7.4 billion. Total net assets for the Enterprise Funds (including restatement of the prior year balance) increased by $307 million during the fiscal year; Internal Service Funds increased by $12 million.

Long-term Liabilities
The State's long-term liabilities totaled $7.4 billion at June 30, 2005. General obligation debt is the major component comprising 85% of these liabilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Georgia's basic financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements: Reporting the State as a Whole
The government-wide financial statements are designed to provide readers with a broad overview of the State of Georgia's finances, in a manner similar to the private sector. These financial statements provide both short-term and long-term information about the State's financial status, which assists in assessing the State's financial condition at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting, and report financial information about the entire government except fiduciary activities. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets may serve as a useful indicator of whether the State's financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements report three activities:

Governmental Activities – Taxes and intergovernmental revenues principally fund the activities reported within this section. The majority of the State's basic services fall under this activity including general government, education, health and welfare, transportation, public safety, economic development and assistance, culture and recreation, conservation, and interest on long-term debt.

Business-Type Activities – These activities normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The most significant business-type activities of the State include the operations of the Unemployment Compensation Contributions and Benefits Fund (by the Georgia Department of Labor), the self-insured State Employees' Health Benefit Plan (by the Georgia Department of Community Health) and the programs of the Higher Education Fund (by the Board of Regents of the University System of Georgia and the Georgia Department of Technical and Adult Education).

Discretely Presented Component Units – Although these organizations are legally separate, the State is financially accountable for them. Financial information for these component units is reported on the government-wide statements separately from the financial information presented for the primary government. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State's most significant discretely presented component units are Georgia Environmental Facilities Authority, Georgia Housing and Finance Authority, Georgia Lottery Corporation, Georgia Tech Foundation, Incorporated, and the State Road and Tollway Authority.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements: Reporting the State's Most Significant Funds
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Georgia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government (not on the State as a whole), reporting the State's operations in more detail than the government-wide statements. All of the funds of the State of Georgia can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. These fund categories use different accounting approaches and should be interpreted differently.

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds. These funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on short-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's short-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The State of Georgia maintains eight individual governmental funds. The State's two major governmental funds are the General Fund and the Georgia State Financing and Investment Commission (GSFIC), which is a capital projects fund. Information for each major fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Data for the remaining six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found immediately following the government-wide statements.

Proprietary Funds – The State of Georgia maintains two different types of proprietary funds. When the State charges customers for the services it provides, whether to customers outside the State of Georgia reporting entity (*enterprise funds*) or to other organizations within the reporting entity (*internal service funds*), these services are reported in proprietary funds.

The State of Georgia's proprietary funds include four enterprise funds and six internal service funds. The State's three major enterprise funds are the Higher Education Fund, the State Employees' Health Benefit Plan and the Unemployment Compensation Fund. As there is only one nonmajor enterprise fund, combining statements are not required. The enterprise funds are the same as the business-type activities reported in the government-wide statements, but more detail is provided for each of these funds in the proprietary fund statements. Conversely, all six internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal services funds is provided in the form of *combining statements* elsewhere in this report. Since the internal service funds benefit both the governmental functions and the business-type functions, they have been proportionately included within the governmental activities and the business type activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds and Similar Component Units: The State as Trustee – These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs; instead, the State is responsible for using the fiduciary assets for the fiduciary fund's intended purposes. The accounting used for fiduciary funds is much like that used for proprietary funds.

The State's fiduciary funds are the Pension Trust Funds (fifteen separate retirement plans for employees), the Investment Trust Funds (which account for the transactions, assets, liabilities and fund equity of external investment pools), Private-Purpose Trust Funds (which account for assets held by the government in a trustee capacity), and Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals). Individual fund data for the fiduciary funds and similar component units can be found in the *combining statements* elsewhere in this report.

The basic fiduciary fund financial statements can be found immediately following the proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds and similar component units' financial statements.

Required Supplementary Information

In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of other required supplementary information. This section includes (1) a budgetary comparison schedule and accompanying reconciliation to the governmental fund financial statements, and (2) pension funding information.

Combining Statements

The combining statements referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State of Georgia's combined assets (governmental and business-type activities) exceeded liabilities by $20.6 billion at the end of fiscal year 2005.

State of Georgia
Net Assets as of June 30, 2005 and 2004

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and Other Non-current Assets	$ 9,580,424,594	$ 8,902,740,907	$ 2,821,605,626	$ 2,637,831,157	$ 12,402,030,220	$ 11,540,572,064
Net Capital Assets	15,522,642,591	14,813,652,946	4,894,624,364	4,331,341,093	20,417,266,955	19,144,994,039
Total Assets	$ 25,103,067,185	$ 23,716,393,853	$ 7,716,229,990	$ 6,969,172,250	$ 32,819,297,175	$ 30,685,566,103
Non-current Liabilities	$ 6,525,133,277	$ 6,811,312,051	$ 846,466,373	$ 637,171,719	$ 7,371,599,650	$ 7,448,483,770
Other Liabilities	4,081,480,464	3,284,334,989	689,342,328	607,715,673	4,770,822,792	3,892,050,662
Total Liabilities	$ 10,606,613,741	$ 10,095,647,040	$ 1,535,808,701	$ 1,244,887,392	$ 12,142,422,442	$ 11,340,534,432
Net Assets						
Invested in Capital Assets, net of related debt	$ 10,914,903,468	$ 10,073,116,534	$ 4,214,124,405	$ 3,849,934,815	$ 15,129,027,873	$ 13,923,051,349
Restricted	2,248,833,736	2,166,593,614	1,599,877,521	1,269,662,551	3,848,711,257	3,436,256,165
Unrestricted	1,332,716,240	1,381,036,665	366,419,363	604,687,492	1,699,135,603	1,985,724,157
Total Net Assets	$ 14,496,453,444	$ 13,620,746,813	$ 6,180,421,289	$ 5,724,284,858	$ 20,676,874,733	$ 19,345,031,671

The largest portion of the State of Georgia's net assets (73 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure) less any related debt used to acquire those assets that is still outstanding. Infrastructure assets comprise 47 percent of the State's capital assets, net of accumulated depreciation. The State uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets (19 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used at the State's discretion to meet ongoing obligations to citizens and creditors, however, certain portions of unrestricted net assets have internal designations. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Assets

The revenues and expenses information, shown in the table on the following page, was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year. The State of Georgia earned program revenues of $18.8 billion and general revenues of $16.2 billion, totaling $35 billion during Fiscal Year 2005. Expenses for the State during Fiscal Year 2005 were $35.2 billion.

The State's net assets (including restatement of the prior year balance) decreased by $135 million during the current fiscal year. The economic information presented later in this discussion and analysis provides insight into the conditions of the State that have caused this to occur.

State of Georgia
Changes in Net Assets for the Years Ended June 30, 2005 and 2004

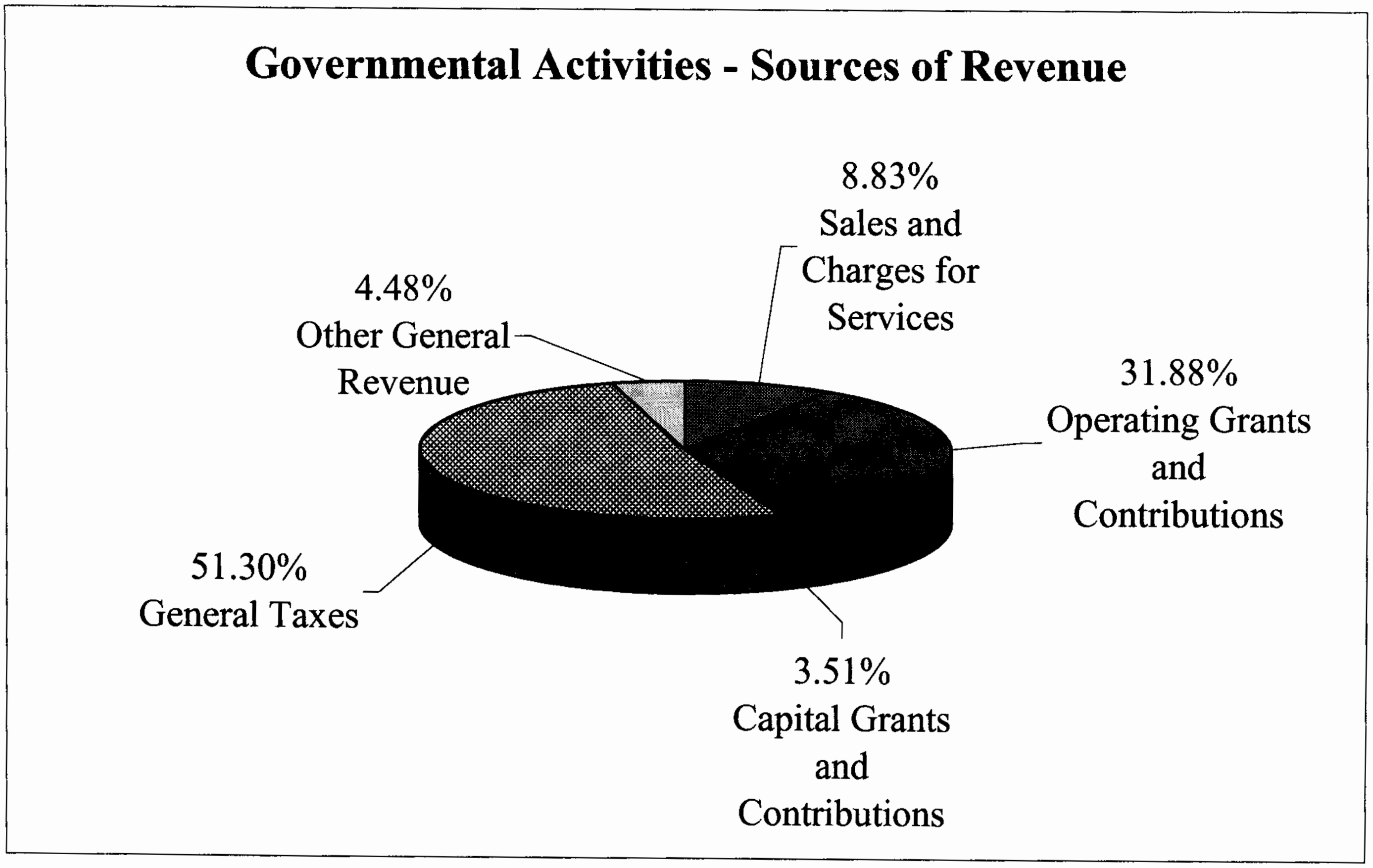
	Governmental Activities 2005	Governmental Activities 2004	Business-Type Activities 2005	Business-Type Activities 2004	Total Primary Government 2005	Total Primary Government 2004
Revenues:						
Program Revenues:						
Charges for Services	$ 2,553,120,758	$ 2,256,765,248	$ 1,934,573,870	$ 2,079,339,180	$ 4,487,694,628	$ 4,336,104,428
Operating Grants and Contributions (1)	9,213,591,433	10,278,522,740	4,050,853,698	3,330,386,346	13,264,445,131	13,608,909,086
Capital Grants and Contributions (1)	1,014,143,818	7,100,353	40,028,701	148,406,860	1,054,172,519	155,507,213
General Revenues:						
Taxes	14,828,284,294	13,734,734,437		-	14,828,284,294	13,734,734,437
Grants and Contributions		176,603		-	-	176,603
Unrestricted Investment Income	208,655,548	116,615,258	88,206,697	58,646,464	296,862,245	175,261,722
Unclaimed Property	75,352,829	54,073,941		-	75,352,829	54,073,941
Other	1,011,803,330	1,094,273,034		-	1,011,803,330	1,094,273,034
Total Revenues	$ 28,904,952,010	$ 27,542,261,614	$ 6,113,662,966	$ 5,616,778,850	$ 35,018,614,976	$ 33,159,040,464
Expenses:						
General Government	$ 1,354,450,611	$ 1,900,816,188	$	$ -	$ 1,354,450,611	$ 1,900,816,188
Education	8,376,252,428	8,007,435,032		-	8,376,252,428	8,007,435,032
Health and Welfare	11,847,414,184	11,370,543,257		-	11,847,414,184	11,370,543,257
Transportation	2,316,637,951	1,844,280,801		-	2,316,637,951	1,844,280,801
Public Safety	1,781,048,236	1,712,345,630		-	1,781,048,236	1,712,345,630
Economic Development and Assistance	702,878,955	738,424,900		-	702,878,955	738,424,900
Culture and Recreatoin	225,821,123	237,830,704		-	225,821,123	237,830,704
Conservation	48,790,642	49,089,414		-	48,790,642	49,089,414
Interest and Other Charges on Long-Term Debt	318,859,479	319,033,931		-	318,859,479	319,033,931
Georgia Technology Authority		-	193,917,948	198,937,289	193,917,948	198,937,289
Higher Education Fund		-	5,310,815,372	4,762,819,609	5,310,815,372	4,762,819,609
State Employees' Health Benefit Fund		-	2,092,456,636	1,850,125,373	2,092,456,636	1,850,125,373
Unemployment Compensation		-	584,260,307	877,555,002	584,260,307	877,555,002
Total Expenses	$ 26,972,153,609	$ 26,179,799,857	$ 8,181,450,263	$ 7,689,437,273	$ 35,153,603,872	$ 33,869,237,130
Increase (Decrease) in Net Assets BeforeTransfers and Special Items	$ 1,932,798,401	$ 1,362,461,757	$ (2,067,787,297)	$ (2,072,658,423)	$ (134,988,896)	$ (710,196,666)
Transfers	(2,340,526,077)	(2,294,450,061)	2,340,526,077	2,294,450,061	-	-
Special Item	-	-		-	-	-
Change in Net Assets	$ (407,727,676)	$ (931,988,304)	$ 272,738,780	$ 221,791,638	$ (134,988,896)	$ (710,196,666)
Net Assets, July 1 - Restated	14,904,181,120	14,552,735,117	5,907,682,509	5,502,493,220	20,811,863,629	20,055,228,337
Net Assets, June 30	$ 14,496,453,444	$ 13,620,746,813	$ 6,180,421,289	$ 5,724,284,858	$ 20,676,874,733	$ 19,345,031,671

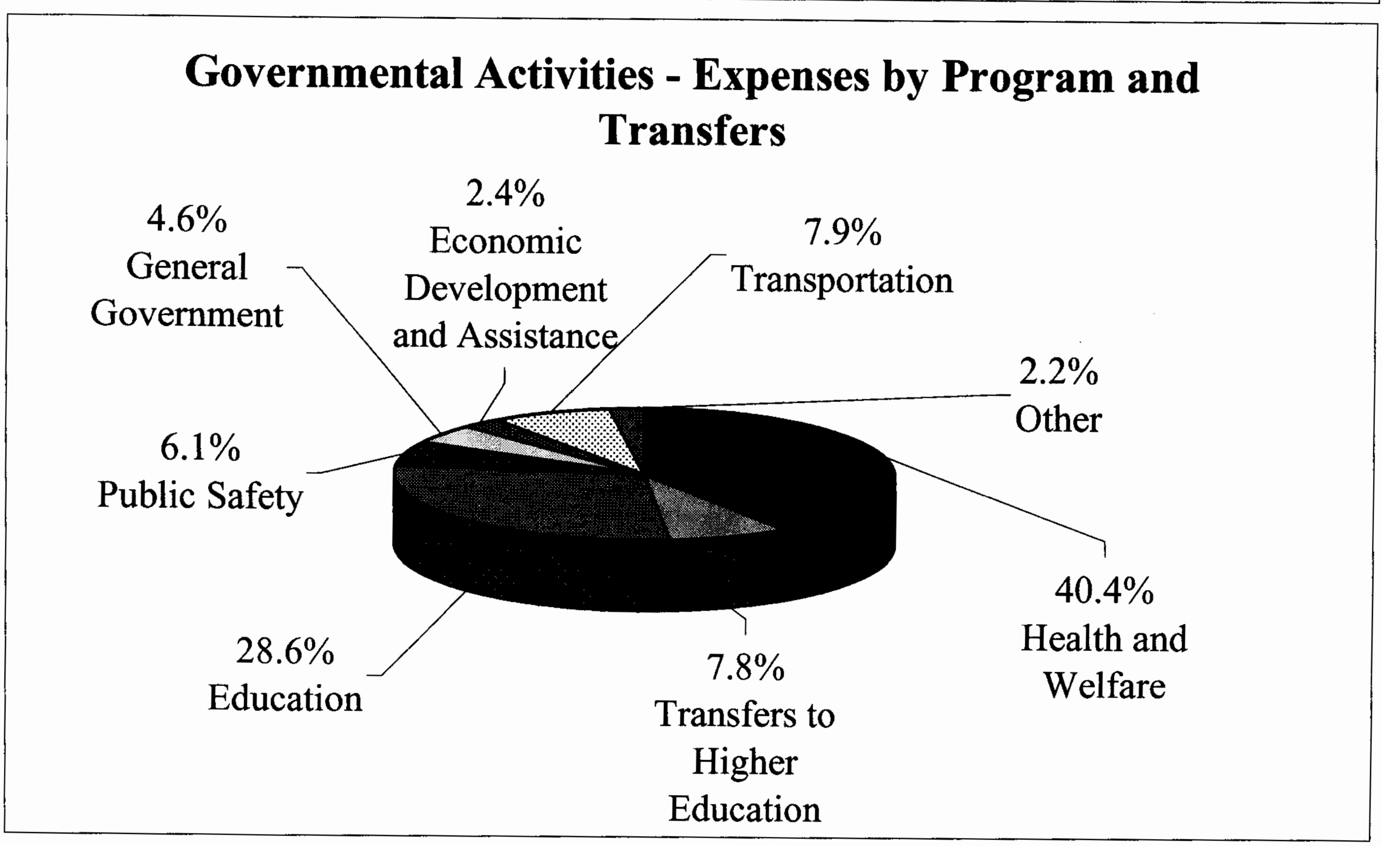
(1) Certain federal and other revenues for infrastructure expenditures were reported as Operating Grants and Contributions in FY 04, but are reported as Capital Grants and Contributions in FY 05.

Governmental Activities

Governmental activities reduced the State's net assets (including restatement of the prior year balance) by $408 million. This decrease was primarily due to current year expenditures for capital acquisitions exceeding current year bond proceeds.

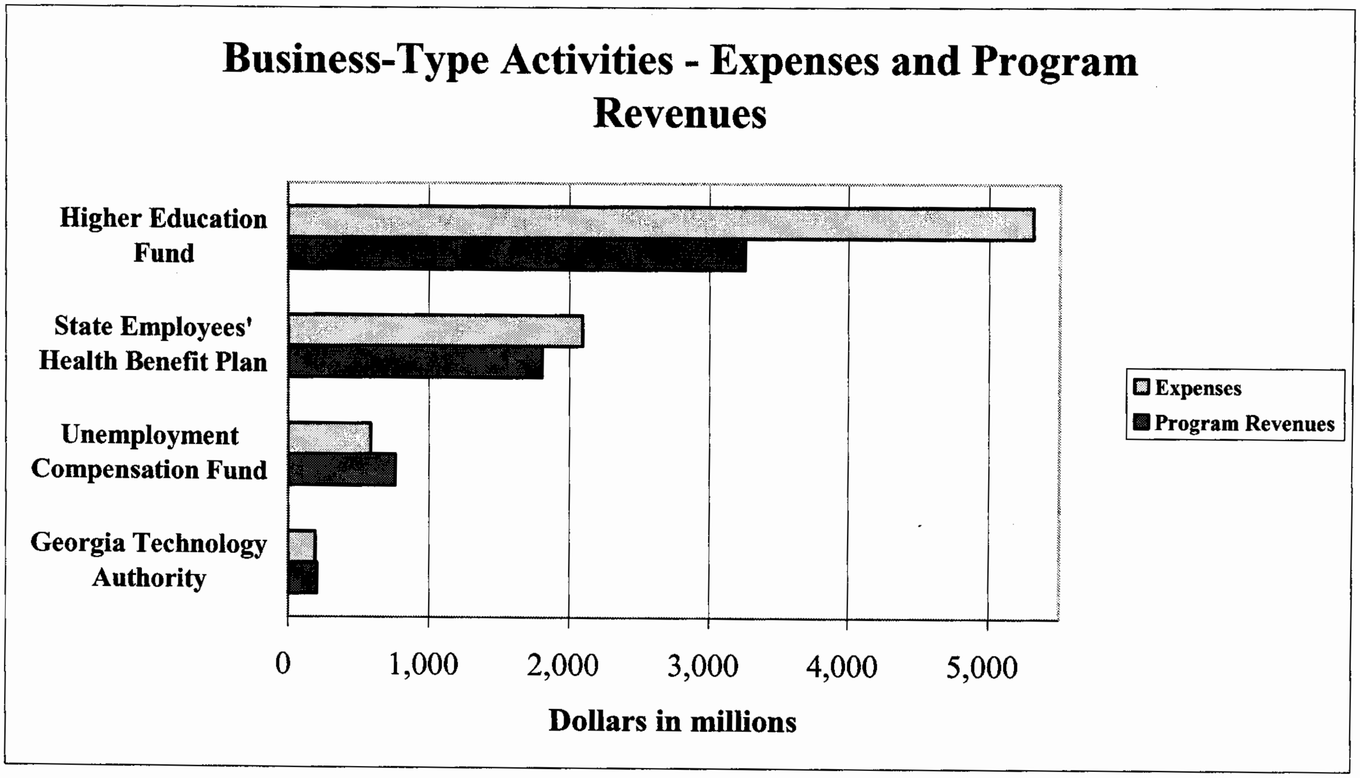
Governmental revenues account for approximately 83 percent of total revenue. Approximately 51 percent of governmental revenue came from taxes, while 35 percent resulted from grants and contributions (mostly federal revenue). Charges for various goods and services provided 9 percent of the revenues. The State's expenses cover a range of services. The largest outlays were for education, including transfers to higher education, and health and welfare, which combined, accounted for 77 percent of total governmental activity expenses and transfers. In fiscal year 2005, governmental activity expenses and transfers were funded 44.2 percent, or $12.8 billion, from program revenues and 55.8 percent, or $16.1 billion, from general revenues (mostly taxes).





Business-Type Activities
Business-type activities increased the State of Georgia's net assets (including restatement of the prior year balance) by $273 million. Additions to the facilities of various colleges and universities account for this change. Operating Grants and Contributions accounted for 48 percent of revenues and transfers and Higher Education and State Employees' Health Benefit Plan accounted for 90 percent of expense.

In fiscal year 2005, business-type activities expenses were funded 71.3 percent, or $6.0 billion, from program revenues; 1.0 percent, or $88 million, from general revenues; and 27.7 percent, or $2.3 billion, from transfers from governmental activities to fund higher education.



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds
The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2005, the State of Georgia's governmental funds reported combined ending fund balances of $4.6 billion, a decrease of $191.1 million in comparison with the prior fiscal year (after restatement of the prior year balance). Approximately 16% of this total amount ($725 million) constitutes *unreserved fund balance*, the majority of which is in the Capital Projects Fund and is designated to fund capital acquisitions. The remainder of fund balance is *reserved* to indicate that it is restricted for specific purposes. These reservations include commitments 1) to liquidate contracts and purchase orders ($720 million), 2) to provide and maintain an adequate system of public roads and bridges in the State ($1.4 billion appropriated to the Georgia Department of

Transportation (GDOT), $61 million committed to subsequent appropriation to GDOT), 3) to administer education programs funded by the State's lottery ($668 million), 4) for the revenue shortfall reserve ($158 million to fund education programs and $257 million for revenue shortfalls as required by State law) and for a variety of other restricted purposes ($639 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund reflected a deficit of $79 million, while total fund balance reached $3.8 billion. The deficit is primarily due to timing differences in posting liability accruals and the corresponding assets, and to a statutory requirement to calculate the Revenue Shortfall Reserve on a budgetary basis.

The fund balance (including restatement of the prior year balance) of the State's General Fund increased by $242 million, primarily as a result of higher tax collections and recovery of the economy. By the end of the year, fund balance had grown 6.9 percent from the prior year restated balance.

The capital projects fund, in total, has a fund balance of $805 million, most of which is designated for future capital outlay. The State has five capital projects funds, with one being considered a major fund for presentation purposes for fiscal year 2005. The major capital projects fund, as mentioned earlier, is the Georgia State Financing and Investment Commission (GSFIC); the total fund balance for GSFIC is $796 million. The total net decrease in fund balance during the current year in the capital projects fund ($433 million) resulted from the use of bond proceeds for construction and equipment greater than the amount of bonds issued.

Proprietary Funds
The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail.

BUDGETARY HIGHLIGHTS

The final budget exceeded original appropriations by approximately $7.9 billion. This increase resulted primarily from $1.5 billion in funds carried forward from the prior year, $3.3 billion of federal revenues, and $2.9 billion of other revenues being amended into the budget by the State organizations that anticipated earning the funds. Additionally, the State's Supplementary Appropriations Act increased budgeted state general revenues by $183 million.

At fiscal year end, funds available were approximately $2.2 billion less than final budgetary estimates and expenditures were approximately $3.6 billion less than final budgetary estimates, resulting in an excess of funds available over expenditures of approximately $1.4 billion.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State of Georgia's investment in capital assets for its governmental and business-type activities as of June 30, 2005, was $31.4 billion, less accumulated depreciation of $11.0 billion (net book value of $20.4 billion). Investment in capital assets includes land, buildings and building improvements, improvements other than buildings, personal property (machinery and equipment), infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State of Georgia's investment in capital assets for the current fiscal year was $1.2 billion, or 3.9 percent (a 1.9 percent increase for governmental activities and a 10.5 percent increase for business-type activities). Accumulated depreciation increased $1.2 billion or 12.3 percent (a 14.0 percent increase for governmental activities and an 8.0 percent increase for business-type activities). In addition, the prior year balances were restated by $1.3 billion (net of accumulated depreciation). The majority of the prior year restatement ($1.0 billion) was a result of the completion of a project at GDOT to validate land inventories.

State of Georgia
Capital Assets, net of depreciation as of June 30, 2005 and 2004

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004 (As Restated)	2005	2004 (As Restated)	2005	2004 (As Restate)
Land	$ 1,549,993,780	$ 1,490,709,616	$ 193,721,811	$ 165,223,376	$ 1,743,715,591	$ 1,655,932,992
Buildings and Building Improvements	1,688,075,630	1,672,066,710	3,475,673,745	2,995,407,623	5,163,749,375	4,667,474,333
Improvements Other Than Buildings	40,927,581	39,094,091	162,440,157	154,193,663	203,367,738	193,287,754
Machinery and Equipment	246,442,774	247,726,895	553,534,217	514,003,329	799,976,991	761,730,224
Software	30,056,956	18,985,716	6,067,398	6,265,306	36,124,354	25,251,022
Library Collections	-	-	142,682,465	136,548,441	142,682,465	136,548,441
Works of Art and Collections	1,852,727	1,873,394	17,048,243	16,477,219	18,900,970	18,350,613
Infrastructure	9,425,487,386	10,119,826,937	203,733,103	193,029,308	9,629,220,489	10,312,856,245
Construction in Progress	2,539,805,757	2,496,834,294	139,723,225	180,891,211	2,679,528,982	2,677,725,505
Total	$ 15,522,642,591	$ 16,087,117,653	$ 4,894,624,364	$ 4,362,039,476	$ 20,417,266,955	$ 20,449,157,129

Additional information on the State's capital assets can be found in Note 5 to the financial statements of this report.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $6.24 billion. As illustrated below, substantially all of this amount is backed by the full faith and credit of the government (*general obligation debt*).

The most current bond ratings for Moody's Investors Service, Fitch Investors Service, L.P., and Standard and Poor's Corporation are Aaa, AAA and AAA, respectively. Under the State's Constitution the highest aggregate annual debt service requirement may not exceed 10 percent of the previous fiscal year's revenue collections. The State's current highest annual debt service requirement is 6.23% of the previous fiscal year's revenue collections.

State of Georgia
Outstanding Bond Debt as of June 30, 2005 and 2004

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	$ 6,238,934,075	$ 6,513,380,000	$ -	$ -	$ 6,238,934,075	$ 6,513,380,000

The State of Georgia's total long-term liabilities decreased by $77 million (1.0 percent) during the current fiscal year. The key factors contributing to this change are a net decrease of $274 million in general obligation bonds due to maturities offset by a net increase of $199 million in capital lease obligations. The increase in capital lease obligations was primarily in the Higher Education Fund.

Additional information on the State of Georgia's long-term debt can be found in Note 10 of the notes to the financial statements of this report.

ECONOMIC FACTORS

The trend for economic recovery in the U. S. has been similar for the State of Georgia. On December 12, 2005, the Department of Revenue announced that net revenue collections during the month of November for fiscal year 2006, increased by $24.0 million or 2.0% from the same period in fiscal year 2005. The year-to-date collections for November 2005 increased by $468.9 million or 8.0% from the prior year.

The Georgia Economic Indicators, Quarterly Report revealed upswings in the state's major economic indices for the second quarter of calendar year 2005. The Leading Economic Indicator (LEI) increased by 1.7% from the previous quarter primarily due to strong automobile sales and construction activity. The Coincident Economic Indicator (CEI) was higher by 0.6% than the first quarter of 2005. This was despite an increase in the Unemployment rate from 5.0% in the prior reporting period to 5.6% in the current period. The report pointed to more moderate growth in the second half of the year; however, it cautioned that higher fuel costs and interests rates could possibly dampen this growth.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Georgia's finances for all of Georgia's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State Accounting Office, 200 Piedmont Avenue, Suite 1604 West Tower, Atlanta, Georgia 30334-9010.

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BASIC FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2005

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents	$ 3,069,244,909	$ 1,914,942,018	$ 4,984,186,927	$ 873,527,630
Investments	3,002,658,967	416,782,669	3,419,441,636	2,338,965,561
Accounts Receivable (Net of Allowances for Uncollectibles)				
Interest and Dividends	33,246,988	—	33,246,988	10,993,309
Notes and Loans	1,191,532	45,529,931	46,721,463	356,225,746
Taxes	1,291,039,740	—	1,291,039,740	267,734
Other	386,135,882	316,657,567	702,793,449	775,371,927
Internal Balances	75,167,150	(75,167,150)	0	—
Due From Primary Government	—	—	0	8,539,516
Due From Component Units	74,212,708	76,348,447	150,561,155	71,671,437
Intergovernmental Receivables	1,521,372,241	67,371,722	1,588,743,963	5,513,103
Inventories	52,144,081	27,104,706	79,248,787	14,374,404
Prepaid Items	21,124,768	31,882,830	53,007,598	3,073,104
Other Assets	17,745,895	152,886	17,898,781	209,208,303
Restricted Assets				
Cash and Cash Equivalents	—	—	0	147,724,298
Investments	—	—	0	562,523,484
Receivables				
Loans (Net)	—	—	0	1,293,733,683
Interest and Dividends	—	—	0	5,837,488
Other	—	—	0	61,700
Advances to Component Units	28,461,917	—	28,461,917	—
Deferred Charges	6,677,816	—	6,677,816	17,603,103
Capital Assets (Net of Accumulated Depreciation)	15,522,642,591	4,894,624,364	20,417,266,955	1,826,895,817
Total Assets	$ 25,103,067,185	$ 7,716,229,990	$ 32,819,297,175	$ 8,522,111,347
Liabilities				
Accounts Payable and Other Accruals	$ 1,547,977,059	$ 113,098,684	$ 1,661,075,743	$ 186,221,072
Due to Primary Government	—	—	0	150,561,155
Due to Component Units	—	8,539,516	8,539,516	71,671,437
Salaries/Withholdings Payable	18,475,001	14,848,765	33,323,766	7,561,139
Benefits Payable	966,925,677	211,137,626	1,178,063,303	—
Accrued Interest Payable	113,473,896	—	113,473,896	3,621,840
Contracts Payable	143,147,116	5,953,361	149,100,477	7,235,840
Undistributed Local Government Sales Tax	102,900,000	—	102,900,000	—
Funds Held for Others	589,787,073	40,434,204	630,221,277	20,523,919
Deferred Revenue	204,037,271	263,223,988	467,261,259	452,890,646
Deposits	797,467	22,839,311	23,636,778	—
Claims and Judgments Payable	388,389,305	1,000,000	389,389,305	—
Liabilities Payable from Restricted Assets	—	—	0	25,054,545
Other Liabilities	5,570,599	8,266,873	13,837,472	76,405,585
Noncurrent Liabilities:				
Due within one year	656,358,864	114,250,267	770,609,131	197,390,915
Due in more than one year	5,868,774,413	732,216,106	6,600,990,519	3,037,841,434
Total Liabilities	$ 10,606,613,741	$ 1,535,808,701	$ 12,142,422,442	$ 4,236,979,527

The notes to the financial statements are an integral part of this statement.

Statement of Net Assets
June 30, 2005

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Net Assets				
Invested in Capital Assets, Net of Related Debt	$ 10,914,903,468	$ 4,214,124,405	$ 15,129,027,873	$ 938,044,915
Restricted for:				
Bond Covenants/Debt Service	—	—	0	53,667,979
Construction	—	—	0	25,826,206
Distance Learning and Telemedicine	—	15,662,279	15,662,279	—
Guaranteed Revenue Debt Common Reserve Fund	71,830,871	—	71,830,871	—
Hazardous Waste Trust Fund	11,393,496	—	11,393,496	—
Loan and Grant Programs	—	—	0	23,321,625
Lottery for Education	667,663,607	—	667,663,607	—
Motor Fuel Tax Funds	1,404,532,570	—	1,404,532,570	—
Permanent Trusts:				
Nonexpendable	—	118,985,287	118,985,287	885,663,736
Expendable	—	199,528,381	199,528,381	615,572,571
Underground Storage Trust Fund	65,918,343	—	65,918,343	—
Unemployment Compensation Benefits	—	1,244,475,182	1,244,475,182	—
Other Purposes	27,494,849	21,226,392	48,721,241	4,944,315
Unrestricted	1,332,716,240	366,419,363	1,699,135,603	1,738,090,473
Total Net Assets	$ 14,496,453,444	$ 6,180,421,289	$ 20,676,874,733	$ 4,285,131,820

The notes to the financial statements are an integral part of this statement.

State of Georgia

Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program: Sales and Charges for Services	Program: Operating Grants and Contributions
Functions/Programs			
Primary Government			
Governmental Activities:			
General Government	$ 1,354,450,611	$ 267,755,489	$ 146,644,349
Education	8,376,252,428	30,133,106	1,453,109,759
Health and Welfare	11,847,414,184	1,435,223,530	6,903,487,446
Transportation	2,316,637,951	212,718,387	—
Public Safety	1,781,048,236	412,572,389	127,526,349
Economic Development and Assistance	702,878,955	55,970,915	506,412,598
Culture and Recreation	225,821,123	130,215,864	65,853,405
Conservation	48,790,642	8,531,078	10,557,527
Interest and Other Charges on Long-Term Debt	318,859,479	—	—
Total Governmental Activities	$ 26,972,153,609	$ 2,553,120,758	$ 9,213,591,433
Business-Type Activities:			
Georgia Technology Authority	$ 193,917,948	$ 204,245,926	$ —
Higher Education Fund	5,310,815,372	1,730,327,944	1,483,352,998
State Employees' Health Benefit Plan	2,092,456,636	—	1,805,784,105
Unemployment Compensation Fund	584,260,307	—	761,716,595
Total Business-Type Activities	$ 8,181,450,263	$ 1,934,573,870	$ 4,050,853,698
Total Primary Government	$ 35,153,603,872	$ 4,487,694,628	$ 13,264,445,131
Component Units			
Environmental Facilities Authority	$ 30,947,380	$ 27,903,883	$ 29,430,457
Georgia Tech Foundation, Incorporated	60,260,000	15,472,000	68,446,073
Housing and Finance Authority	87,038,856	47,646,693	34,326,822
Lottery Corporation	2,739,572,000	2,739,049,000	—
Road and Tollway Authority	236,969,656	20,353,541	—
Nonmajor Component Units	1,511,933,889	762,912,111	685,565,538
Total Component Units	$ 4,666,721,781	$ 3,613,337,228	$ 817,768,890

General Revenues:
- Taxes
- Contributions to Permanent Endowments
- Unrestricted Investment Income
- Unclaimed Property
- Other
- Payments from the State of Georgia

Transfers

Total General Revenues, Special Items, and Transfers

Change in Net Assets

Net Assets - Beginning - Restated

Net Assts - Ending

The notes to the financial statements are an integral part of this statement.

Revenues	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
$ 3,729,321	$ (936,321,452)	$ —	$ (936,321,452)	$ —
—	(6,893,009,563)	—	(6,893,009,563)	—
52,495	(3,508,650,713)	—	(3,508,650,713)	—
1,009,574,313	(1,094,345,251)	—	(1,094,345,251)	—
697,312	(1,240,252,186)	—	(1,240,252,186)	—
—	(140,495,442)	—	(140,495,442)	—
85,377	(29,666,477)	—	(29,666,477)	—
5,000	(29,697,037)	—	(29,697,037)	—
—	(318,859,479)	—	(318,859,479)	—
$ 1,014,143,818	$ (14,191,297,600)	$ —	$ (14,191,297,600)	$ —
$ —	$ —	$ 10,327,978	$ 10,327,978	$ —
40,028,701	—	(2,057,105,729)	(2,057,105,729)	—
—	—	(286,672,531)	(286,672,531)	—
—	—	177,456,288	177,456,288	—
$ 40,028,701	$ —	$ (2,155,993,994)	$ (2,155,993,994)	$ —
$ 1,054,172,519	$ —	$ (2,155,993,994)	$ (16,347,291,594)	$ —
$ 81,341,763	$ —	$ —	$ —	$ 107,728,723
—	—	—	—	23,658,073
—	—	—	—	(5,065,341)
—	—	—	—	(523,000)
—	—	—	—	(216,616,115)
31,062,609	—	—	—	(32,393,631)
$ 112,404,372	$ —	$ —	$ —	$ (123,211,291)
	$ 14,828,284,294	$ —	$ 14,828,284,294	$ 22,877,734
	—	—	0	22,208,829
	208,655,548	88,206,697	296,862,245	124,473,153
	75,352,829	—	75,352,829	—
	1,011,803,330	—	1,011,803,330	20,391,021
	—	—	0	185,310,420
	(2,340,526,077)	2,340,526,077	0	—
	$ 13,783,569,924	$ 2,428,732,774	$ 16,212,302,698	$ 375,261,157
	$ (407,727,676)	$ 272,738,780	$ (134,988,896)	$ 252,049,866
	14,904,181,120	5,907,682,509	20,811,863,629	4,033,081,954
	$ 14,496,453,444	$ 6,180,421,289	$ 20,676,874,733	$ 4,285,131,820

Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Georgia State Financing and Investment Commission	Nonmajor Funds	Total
Assets				
Cash and Cash Equivalents	$ 2,803,705,324	$ 130,200,092	$ 6,355,605	$ 2,940,261,021
Investments	1,080,957,186	748,072,943	1,550,767	1,830,580,896
Receivables (Net of Allowances for Uncollectibles)				
Taxes	1,291,039,740	—	—	1,291,039,740
Interest and Dividends	33,246,988	—	—	33,246,988
Notes and Loans	1,191,532	—	—	1,191,532
Other	371,510,046	—	1,229,758	372,739,804
Due from Other Funds	13,772,619	—	—	13,772,619
Due from Component Units	70,739,228	—	—	70,739,228
Intergovernmental Receivables	1,521,372,241	—	—	1,521,372,241
Inventories	44,733,038	—	—	44,733,038
Prepaid Items	20,935,158	—	—	20,935,158
Other Assets	17,745,895	—	—	17,745,895
Total Assets	$ 7,270,948,995	$ 878,273,035	$ 9,136,130	$ 8,158,358,160
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Other Accruals	$ 1,499,213,289	$ 39,902,177	$ 46,691	$ 1,539,162,157
Due to Other Funds	8,610,970	13,772,619	—	22,383,589
Salaries/Withholdings Payable	18,463,866	—	—	18,463,866
Benefits Payable	966,925,677	—	—	966,925,677
Contracts Payable	114,537,722	28,581,311	—	143,119,033
Undistributed Local Government Sales Tax	102,900,000	—	—	102,900,000
Funds Held for Others	589,787,073	—	—	589,787,073
Deferred Revenue	198,687,979	—	—	198,687,979
Other Liabilities	5,570,599	—	—	5,570,599
Total Liabilities	$ 3,504,697,175	$ 82,256,107	$ 46,691	$ 3,586,999,973
Fund Balances:				
Reserved for Encumbrances	$ 720,357,548	$ —	$ —	$ 720,357,548
Reserved for Guaranteed Revenue Debt Common Reserve Fund	71,830,871	—	—	71,830,871
Reserved for Hazardous Waste Trust Fund	11,393,496	—	—	11,393,496
Reserved for Inventories	43,644,174	—	—	43,644,174
Reserved for Lottery for Education	667,663,607	—	—	667,663,607
Reserved for Motor Fuel Tax Funds	1,404,532,570	—	—	1,404,532,570
Reserved for Revenue Shortfall				
Education (K - 12)	158,139,967	—	—	158,139,967
Other	256,664,658	—	—	256,664,658
Reserved for Tobacco Settlement Funds	174,789,445	—	—	174,789,445
Reserved for Underground Storage Trust Fund	65,918,343	—	—	65,918,343
Reserved for Unissued Debt	106,447,297	—	—	106,447,297
Reserved for Other Specific Purposes	163,846,800	—	1,027,293	164,874,093
Unreserved, Designated				
Designated for Capital Outlay	—	796,016,928	—	796,016,928
Unreserved, Undesignated, Reported in				
General Fund	(78,976,956)	—	—	(78,976,956)
Capital Projects Funds	—	—	8,062,146	8,062,146
Total Fund Balances	$ 3,766,251,820	$ 796,016,928	$ 9,089,439	$ 4,571,358,187
Total Liabilities and Fund Balances	$ 7,270,948,995	$ 878,273,035	$ 9,136,130	$ 8,158,358,160

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet – Governmental Funds
To the Statement of Net Assets
June 30, 2005

Total Fund Balances - Governmental Funds		$ 4,571,358,187
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	$ 1,528,493,871	
Buildings and Building Improvements	2,276,808,217	
Improvements Other Than Buildings	65,929,191	
Equipment	684,735,250	
Infrastructure	16,213,471,608	
Construction in Progress	2,539,805,757	
Works of Art	695,819	
Software	82,786,294	
Library Books	3,200,000	
Accumulated Depreciation	(8,110,484,112)	15,285,441,895
Certain long-term assets are not current available financial resources and, therefore, are not reported in the funds.		41,050,388
Certain liabilities are not accrued in governmental funds until they are due and payable, but must be recognized in the Statement of Net Assets.		(113,473,896)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of a majority of the internal service funds are included in governmental activities in the Statement of Net Assets.		1,233,355,062
Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
General Obligation Bonds	$ (6,183,865,000)	
Premiums	(131,554,903)	
Deferred Amount on Refunding	76,485,828	
Capital Leases	(5,122,319)	
Compensated Absences	(250,114,016)	
Long-Term Notes	(3,582,659)	
Contracts Payable	(13,869,285)	
Arbitrage Rebate	(9,655,838)	(6,521,278,192)
Total Net Assets - Governmental Activities		$ 14,496,453,444

The notes to the financial statements are an integral part of this statement.

State of Georgia

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General Fund	Georgia State Financing and Investment Commission	Nonmajor Funds	Total
Revenues:				
Taxes	$ 14,828,284,294	$ —	$ —	$ 14,828,284,294
Licenses and Permits	496,178,286	—	—	496,178,286
Intergovernmental - Federal	10,152,667,272	—	—	10,152,667,272
Sales and Services	1,732,901,939	—	—	1,732,901,939
Fines and Forfeits	265,707,928	—	—	265,707,928
Interest and Other Investment Income	72,678,939	30,160,660	315,318	103,154,917
Rents and Royalties	16,131,005	—	68,440	16,199,445
Contributions and Donations	72,457,446	4,073,737	—	76,531,183
Penalties and Interest on Taxes	8,542,374	—	—	8,542,374
Unclaimed Property	75,352,829	—	—	75,352,829
Lottery Proceeds	802,083,000	—	—	802,083,000
Nursing Home Provider Fees	99,271,176	—	—	99,271,176
Other	105,541,906	5,159,109	912,133	111,613,148
Total Revenues	$ 28,727,798,394	$ 39,393,506	$ 1,295,891	$ 28,768,487,791
Expenditures:				
Current:				
General Government	$ 1,086,943,820	$ 1,691,507	$ 19,361	$ 1,088,654,688
Education	8,359,397,590	—	132	8,359,397,722
Health and Welfare	11,861,216,558	—	—	11,861,216,558
Transportation	1,804,447,522	—	—	1,804,447,522
Public Safety	1,696,259,861	—	—	1,696,259,861
Economic Development and Assistance	688,658,010	—	—	688,658,010
Culture and Recreation	246,260,644	—	—	246,260,644
Conservation	57,677,302	—	—	57,677,302
Capital Outlay	—	485,081,176	914,240	485,995,416
Debt Service				
Principal	—	—	524,583,440	524,583,440
Interest	—	—	332,808,521	332,808,521
Accrued Interest on Bonds Retired in Advance	—	—	203,963	203,963
Discount on Bonds Retired in Advance	—	—	(10,229,169)	(10,229,169)
Other Debt Service Expenditures	—	5,743,483	5,318,887	11,062,370
Total Expenditures	$ 25,800,861,307	$ 492,516,166	$ 853,619,375	$ 27,146,996,848
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 2,926,937,087	$ (453,122,660)	$ (852,323,484)	$ 1,621,490,943
Other Financing Sources (Uses):				
General Obligation Bonds Issuance	$ —	$ 206,875,000	$ —	$ 206,875,000
Refunding Bonds Issuance	—	—	458,605,000	458,605,000
Premium on General Obligation Bonds Sold	—	4,815,321	—	4,815,321
Premium on Refunding Bonds Sold	—	—	61,956,825	61,956,825
Payment to Refunded Bond Escrow Agent	—	—	(519,316,674)	(519,316,674)
Capital Leases	1,643,969	—	—	1,643,969
Transfers In	172,044,324	—	851,235,170	1,023,279,494
Transfers Out	(2,859,081,980)	(191,362,353)	—	(3,050,444,333)
Net Other Financing Sources (Uses)	$ (2,685,393,687)	$ 20,327,968	$ 852,480,321	$ (1,812,585,398)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 241,543,400	$ (432,794,692)	$ 156,837	$ (191,094,455)
Fund Balances, July 1 (Restated)	3,548,277,078	1,228,811,620	8,932,602	4,786,021,300
Adjustments	(23,568,658)	—	—	(23,568,658)
Fund Balances, June 30	$ 3,766,251,820	$ 796,016,928	$ 9,089,439	$ 4,571,358,187

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities For the Fiscal Year Ended June 30, 2005

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses - Governmental Funds			$	(191,094,455)
Amounts reported for governmental activities in the Statement of Activities are different because:				
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.				
Capital outlay (net of losses), net of transfers to Business-Type Activities, Component Units and outside organizations.	$	485,713,039		
Depreciation expense		(1,074,260,253)		(588,547,214)
Collection of long-term receivables is reported as revenue in governmental funds, but the collection reduces the receivable in the Statement of Net Assets.				(3,517,765)
Bond proceeds (net of issuance costs and payments to refunding escrow) provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets.				(211,268,824)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability.				(1,643,968)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces the long-term liabilities in the Statement of Net Assets. Payments were made on the following long-term liabilities:				
General Obligation Bonds	$	528,325,000		
Contracts		13,628,972		
Notes		691,975		
Capital Leases		1,862,367		544,508,314
Internal service funds are used by management to charge the costs of certain activities to individual funds. The incorporation of the external activities of these funds, and the elimination of profit/loss generated by primary government customers results in net revenue (expense) for Governmental Activities.				46,555,504
Inventories accounted for using the purchases method are reported in the governmental funds. In the Statement of Net Assets, such amounts are reported as assets until the inventory is consumed.				
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This adjustment combines the net changes in the following balances:				
Compensated Absences	$	(7,085,222)		
Accrued Interest on Bonds Payable		(2,057,755)		
Arbitrage Rebate		6,286,513		
Amortization of Deferred Amount on Refunding		(5,102,663)		
Amortization of Bond Premiums		5,830,847		
Allocation of Deferred Bond Issuance Costs		(590,988)		(2,719,268)
Change in Net Assets - Governmental Activities			$	(407,727,676)

The notes to the financial statements are an integral part of this statement.

State of Georgia

Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities		
	Major Funds		
	Higher Education Fund	State Employees' Health Benefit Plan	Unemployment Compensation Fund
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 529,944,962	$ 166,148,412	$ 1,128,603,300
Investments	124,979,924	47,741,051	—
Accounts Receivable (Net of Allowances for Uncollectibles)	126,118,880	35,185,607	150,062,224
Due From Other Funds	—	—	—
Due From Component Units	76,323,878	—	—
Intergovernmental Receivables	67,220,054	—	106,008
Inventories	25,786,996	—	—
Prepaid Items	31,882,830	—	—
Other Assets	152,886	—	—
Noncurrent Assets:			
Cash and Cash Equivalents	11,163,428	—	—
Investments	133,872,495	93,341,463	—
Notes Receivable	45,529,931	—	—
Capital Assets:			
Land	193,690,613	—	—
Buildings and Building Improvements	4,784,356,713	—	—
Improvements Other Than Buildings	260,926,121	—	—
Machinery and Equipment	1,285,078,954	—	—
Software	—	—	—
Library Collections	576,289,200	—	—
Works of Art and Collections	17,679,002	—	—
Infrastructure	252,065,840	—	—
Construction in Progress	139,723,225	—	—
Accumulated Depreciation	(2,643,042,091)	—	—
Total Assets	$ 6,039,743,841	$ 342,416,533	$ 1,278,771,532

The notes to the financial statements are an integral part of this statement.

- Enterprise Funds		
Nonmajor Fund		
Georgia Technology Authority	Total	Governmental Activities - Internal Service Funds
$ 79,077,320	$ 1,903,773,994	$ 128,988,484
16,847,736	189,568,711	78,895,713
5,284,560	316,651,271	9,166,189
9,820,405	9,820,405	1,799,000
24,569	76,348,447	—
45,660	67,371,722	—
1,314,221	27,101,217	7,414,532
—	31,882,830	189,610
—	152,886	—
—	11,163,428	—
—	227,213,958	1,093,182,358
—	45,529,931	—
31,198	193,721,811	21,499,909
1,020,441	4,785,377,154	331,688,881
—	260,926,121	5,031,863
72,931,183	1,358,010,137	25,303,590
41,929,635	41,929,635	—
—	576,289,200	—
—	17,679,002	1,239,575
—	252,065,840	—
—	139,723,225	—
(88,065,810)	(2,731,107,901)	(147,552,982)
$ 140,261,118	$ 7,801,193,024	$ 1,556,846,722

(continued)

Statement of Net Assets
Proprietary Funds (continued)
June 30, 2005

	Business-Type Activities		
	Major Funds		
	Higher Education Fund	State Employees' Health Benefit Plan	Unemployment Compensation Fund
Liabilities			
Current Liabilities:			
Accounts Payable and Other Accruals	$ 95,105,385	$ 8,212,091	$ 2,523,640
Due to Other Funds	1,002,152	—	—
Due to Component Units	8,539,516	—	—
Salaries/Withholdings Payable	14,746,524	8,058	—
Benefits Payable	27,583,054	175,577,240	7,977,332
Contracts Payable	5,953,361	—	—
Funds Held for Others	40,434,204	—	—
Deferred Revenue	182,753,820	54,629,429	23,795,378
Deposits	22,839,311	—	—
Claims and Judgments Payable	—	—	—
Compensated Absences Payable - Current	92,420,628	130,519	—
Capital Leases/Installment Purchases Payable - Current	19,079,644	—	—
Notes Payable - Current	569,843	—	—
Other Current Liabilities	8,266,873	—	—
Noncurrent Liabilities:			
Deferred Revenue	2,033,729	—	—
Compensated Absences Payable	67,565,210	109,407	—
Capital Leases/Installment Purchases Payable	658,975,578	—	—
Notes Payable	3,674,023	—	—
Total Liabilities	$ 1,251,542,855	$ 238,666,744	$ 34,296,350
Net Assets			
Invested in Capital Assets, Net of Related Debt	$ 4,186,267,618	$ —	$ —
Restricted for:			
Distance Learning and Telemedicine	—	—	—
Permanent Trusts:			
Nonexpendable	118,985,287	—	—
Expendable	199,528,381	—	—
Unemployment Compensation Benefits	—	—	1,244,475,182
Other Purposes	21,226,392	—	—
Unrestricted	262,193,308	103,749,789	—
Total Net Assets	$ 4,788,200,986	$ 103,749,789	$ 1,244,475,182

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.

Net Assets of Business-Type Activities

The notes to the financial statements are an integral part of this statement.

- Enterprise Funds		
Nonmajor Fund		
Georgia Technology Authority	Total	Governmental Activities - Internal Service Funds
$ 6,892,633	$ 112,733,749	$ 9,179,838
—	1,002,152	207,273
—	8,539,516	—
94,183	14,848,765	11,135
—	211,137,626	—
—	5,953,361	28,083
—	40,434,204	—
11,632	261,190,259	5,349,292
—	22,839,311	797,467
1,000,000	1,000,000	388,389,305
2,049,633	94,600,780	2,583,517
—	19,079,644	—
—	569,843	—
—	8,266,873	—
—	2,033,729	—
1,891,888	69,566,505	1,271,567
—	658,975,578	—
—	3,674,023	—
$ 11,939,969	$ 1,536,445,918	$ 407,817,477
$ 27,846,647	$ 4,214,114,265	$ 237,210,836
15,662,279	15,662,279	—
—	118,985,287	—
—	199,528,381	—
—	1,244,475,182	—
—	21,226,392	3,320,478
84,812,223	450,755,320	908,497,931
$ 128,321,149	$ 6,264,747,106	$ 1,149,029,245
	$ (84,325,817)	
	$ 6,180,421,289	

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Business-Type Activities		
	Major Funds		
	Higher Education Fund	State Employees' Health Benefit Plan	Unemployment Compensation Fund
Operating Revenues:			
Grants and Contributions/Premiums	$ 1,303,665,002	$ 1,805,784,105	$ 761,595,143
Rents and Royalties	3,889,523	—	—
Sales and Services	522,465,742	—	—
Tuition and Fees	1,001,738,787	—	—
Less: Scholarship Allowances	(196,103,108)	—	—
Other	398,334,595	—	121,452
Total Operating Revenues	$ 3,033,990,541	$ 1,805,784,105	$ 761,716,595
Operating Expenses:			
Personal Services	$ 3,155,067,002	$ 3,718,587	$ —
Services and Supplies	1,843,279,412	600,830,904	—
Benefits	—	1,487,907,145	584,260,307
Claims and Judgments	—	—	—
Depreciation	251,647,451	—	—
Total Operating Expenses	$ 5,249,993,865	$ 2,092,456,636	$ 584,260,307
Operating Income (Loss)	$ (2,216,003,324)	$ (286,672,531)	$ 177,456,288
Nonoperating Revenues (Expenses):			
Grants and Contributions	$ 179,687,996	$ —	$ —
Interest and Other Investment Income	23,700,485	10,007,243	52,682,692
Interest Expense	(35,410,879)	—	—
Other	(2,655,390)	—	—
Total Nonoperating Revenues (Expenses)	$ 165,322,212	$ 10,007,243	$ 52,682,692
Income (Loss) Before Contributions and Transfers	$ (2,050,681,112)	$ (276,665,288)	$ 230,138,980
Capital Contributions	$ 379,345,915	$ —	$ —
Transfers:			
Transfers In	$ 1,977,227,533	$ 33,956,708	$ —
Transfers Out	(2,251,048)	—	—
Net Transfers	$ 1,974,976,485	$ 33,956,708	$ 0
Change in Net Assets	$ 303,641,288	$ (242,708,580)	$ 230,138,980
Net Assets, July 1 (Restated)	4,484,559,698	346,458,369	1,014,336,202
Net Assets, June 30	$ 4,788,200,986	$ 103,749,789	$ 1,244,475,182

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.

Change in Net Assets of Business-Type Activities

The notes to the financial statements are an integral part of this statement.

- Enterprise Funds			
Nonmajor Fund			
Georgia Technology Authority	Total		Governmental Activities - Internal Service Funds
$ —	$ 3,871,044,250		$ 47,984,186
—	3,889,523		41,223,874
204,245,926	726,711,668		56,185,248
—	1,001,738,787		—
—	(196,103,108)		—
—	398,456,047		7,560,153
$ 204,245,926	$ 5,805,737,167		$ 152,953,461
$ 46,785,224	$ 3,205,570,813		$ 38,003,531
132,242,780	2,576,353,096		85,980,841
—	2,072,167,452		21,916,000
—	0		118,760,009
13,512,394	265,159,845		12,378,316
$ 192,540,398	$ 8,119,251,206		$ 277,038,697
$ 11,705,528	$ (2,313,514,039)		$ (124,085,236)
$ —	$ 179,687,996		$ —
1,816,277	88,206,697		96,958,257
—	(35,410,879)		—
(249,867)	(2,905,257)		1,314,613
$ 1,566,410	$ 229,578,557		$ 98,272,870
$ 13,271,938	$ (2,083,935,482)		$ (25,812,366)
$ —	$ 379,345,915		$ 25,948,883
$ 18,574,112	$ 2,029,758,353		$ 31,860,085
(15,723,100)	(17,974,148)		(19,896,956)
$ 2,851,012	$ 2,011,784,205		$ 11,963,129
$ 16,122,950	$ 307,194,638		$ 12,099,646
112,198,199			1,136,929,599
$ 128,321,149			$ 1,149,029,245
	(34,455,858)		
	$ 272,738,780		

State of Georgia

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Business-Type Activities	
	Major Funds	
	Higher Education Fund	State Employees' Health Benefit Plan
Cash Flows from Operating Activities:		
Cash Received from Customers	$ 613,157,858	$ —
Cash Received from Grants and Required Contributions/Premiums	1,297,296,610	1,805,627,920
Cash Received from Tuition and Fees	838,132,538	—
Cash Paid to Vendors	(2,160,299,525)	(594,139,973)
Cash Paid to Employees	(2,433,509,569)	(3,668,727)
Cash Paid for Benefits	—	(1,478,374,396)
Cash Paid for Claims and Judgments	—	—
Cash Paid for Scholarships, Fellowships and Loans	(258,354,187)	—
Other Operating Items (Net)	251,272,213	—
Net Cash Provided by (Used in) Operating Activities	$ (1,852,304,062)	$ (270,555,176)
Cash Flows from Noncapital Financing Activities:		
Transfers from Other Funds	$ 1,977,227,533	$ 33,956,708
Transfers to Other Funds	(2,251,048)	—
Other Noncapital Items (Net)	198,779,673	—
Net Cash Provided by Noncapital Financing Activities	$ 2,173,756,158	$ 33,956,708
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	$ 45,924,086	$ —
Proceeds from Sale of Capital Assets	(2,186,366)	—
Acquisition and Construction of Capital Assets	(218,261,830)	—
Principal Paid on Capital Debt	(20,055,579)	—
Interest Paid on Capital Debt	(35,130,625)	—
Net Cash Used in Capital and Related Financing Activities	$ (229,710,314)	$ 0
Cash Flows from Investing Activities:		
Purchase of Investments (Net)	$ (12,450,818)	$ 115,508,814
Interest and Dividends Received	22,902,045	10,007,243
Net Cash Provided by Investing Activities	$ 10,451,227	$ 125,516,057
Net Increase (Decrease) in Cash and Cash Equivalents	$ 102,193,009	$ (111,082,411)
Cash and Cash Equivalents, July 1	438,915,381	277,230,823
Cash and Cash Equivalents, June 30	$ 541,108,390	$ 166,148,412

The notes to the financial statements are an integral part of this statement.

- Enterprise Funds

	Unemployment Compensation Fund	Nonmajor Fund Georgia Technology Authority	Total	Governmental Activities - Internal Service Funds
	$ —	$ 204,374,577	$ 817,532,435	$ 100,804,795
	807,304,718	—	3,910,229,248	48,270,676
	—	—	838,132,538	—
	—	(125,319,425)	(2,879,758,923)	(81,736,033)
	—	(46,759,995)	(2,483,938,291)	(38,260,433)
	(584,059,338)	—	(2,062,433,734)	(21,916,000)
	—	—	0	(108,640,191)
	—	—	(258,354,187)	—
	—	—	251,272,213	6,628,088
	$ 223,245,380	$ 32,295,157	$ (1,867,318,701)	$ (94,849,098)
	$ —	$ 18,574,112	$ 2,029,758,353	$ 32,556,235
	—	(15,723,100)	(17,974,148)	(20,597,506)
	—	—	198,779,673	299,159
	$ 0	$ 2,851,012	$ 2,210,563,878	$ 12,257,888
	$ —	$ —	$ 45,924,086	$ 3,378,384
	—	—	(2,186,366)	2,553,368
	—	(10,567,819)	(228,829,649)	(15,417,341)
	—	(4,610,623)	(24,666,202)	—
	—	(227,410)	(35,358,035)	—
	$ 0	$ (15,405,852)	$ (245,116,166)	$ (9,485,589)
	$ —	$ 4,979,179	$ 108,037,175	$ 8,532,893
	52,682,692	1,816,277	87,408,257	106,281,380
	$ 52,682,692	$ 6,795,456	$ 195,445,432	$ 114,814,273
	$ 275,928,072	$ 26,535,773	$ 293,574,443	$ 22,737,474
	852,675,228	52,541,547	1,621,362,979	106,251,010
	$ 1,128,603,300	$ 79,077,320	$ 1,914,937,422	$ 128,988,484

(continued)

Statement of Cash Flows
Proprietary Funds (continued)
For the Fiscal Year Ended June 30, 2005

	Business-Type Activities	
	Major Funds	
	Higher Education Fund	State Employees' Health Benefit Plan
Operating Income (Loss)	$ (2,216,003,324)	$ (286,672,531)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	251,647,451	—
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	6,413,191	(6,885,166)
Increase in Due From Other Funds	—	—
Increase in Due From Component Units	—	—
Decrease (Increase) in Intergovernmental Receivables	—	—
Decrease (Increase) in Inventories	(2,109,769)	—
Decrease (Increase) in Prepaid Items	(285,256)	—
Increase in Other Assets	(2,361,825)	—
Increase in Notes Receivable	(1,100,199)	—
Increase (Decrease) in Accounts Payable and Other Accruals	(476,185)	6,690,931
Decrease in Due to Other Funds	—	—
Increase (Decrease) in Salaries/Withholdings Payable	(21,124)	5,769
Increase in Benefits Payable	—	9,532,749
Increase in Contracts Payable	—	—
Increase (Decrease) in Deferred Revenue	11,494,732	6,728,981
Increase in Customer Deposits	—	—
Increase in Claims and Judgments Payable	—	—
Increase (Decrease) in Compensated Absences Payable	8,531,364	44,091
Increase in Other Liabilities	91,966,882	—
Net Cash Provided by (Used) in Operating Activities	$ (1,852,304,062)	$ (270,555,176)
Noncash Investing, Capital, and Financing Activities:		
Acquisition of Capital Assets through Capital Leases	$ 225,695,473	$ —
Donation of Capital Assets	346,882,991	—
Net Increase (Decrease) in Fair Value of Investments	252,062	—

The notes to the financial statements are an integral part of this statement.

- Enterprise Funds

Unemployment Compensation Fund	Nonmajor Fund Georgia Technology Authority	Total	Governmental Activities - Internal Service Funds
$ 177,456,288	$ 11,705,528	$ (2,313,514,039)	$ (124,085,236)
—	13,512,394	265,159,845	12,378,316
40,308,374	637,505	40,473,904	(1,603,105)
—	(492,317)	(492,317)	(277,094)
—	(21,560)	(21,560)	—
102,067	(6,609)	95,458	—
—	202,017	(1,907,752)	(629,872)
—	16,864	(268,392)	25,615
—	—	(2,361,825)	—
—	—	(1,100,199)	—
2,522,288	5,704,474	14,441,508	5,148,361
—	—	0	(282,462)
—	51,031	35,676	(80,747)
170,968	—	9,703,717	—
—	—	0	843
2,685,395	11,632	20,920,740	4,163,884
—	—	0	466,713
—	1,000,000	1,000,000	10,119,818
—	(25,802)	8,549,653	(194,132)
—	—	91,966,882	—
$ 223,245,380	$ 32,295,157	$ (1,867,318,701)	$ (94,849,098)
$ —	$ —	$ 225,695,473	$ —
—	—	346,882,991	22,646,307
—	—	252,062	(9,323,123)

State of Georgia

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Pension Trust	Investment Trust	Private Purpose Trust	Agency	Total
Assets					
Cash and Cash Equivalents	$ 24,173,783	$ 2,756,727,582	$ 8,917,836	$ 347,102,489	$ 3,136,921,690
Receivables					
Interest and Dividends	299,092,280	29,192	—	—	299,121,472
Due from Brokers for Securities Sold	50,674,586	—	—	—	50,674,586
Other	167,612,283	—	—	(239,366)	167,372,917
Investments, at Fair Value					
Certificates of Deposit	—	—	—	2,962,683	2,962,683
Investment Accounts	62,285,975	—	—	—	62,285,975
Pooled Investments	13,947,331,975	974,676,624	1,847,527	70,773,199	14,994,629,325
Mutual Funds	89,881,748	—	—	—	89,881,748
Repurchase Agreements	752,404,000	—	—	—	752,404,000
U. S. Government Securities and Corporate Obligations	17,434,096,357	—	—	—	17,434,096,357
Stocks	27,546,764,968	—	—	—	27,546,764,968
Mortgage Investments	45,560,113	—	—	—	45,560,113
Capital Assets					
Land	2,021,656	—	—	—	2,021,656
Buildings	6,014,020	—	—	—	6,014,020
Software	17,016,647	—	—	—	17,016,647
Machinery and Equipment	2,271,315	—	172,124	—	2,443,439
Construction in Progress	39,673	—	—	—	39,673
Accumulated Depreciation	(4,394,481)	—	(123,769)	—	(4,518,250)
Other Assets	—	—	—	2,037,149	2,037,149
Total Assets	$ 60,442,846,898	$ 3,731,433,398	$ 10,813,718	$ 422,636,154	$ 64,607,730,168
Liabilities					
Accounts Payable and Other Accruals	$ 13,762,060	$ —	$ 21,128	$ 4,929,364	$ 18,712,552
Due to Other Funds	1,799,000	—	10	—	1,799,010
Due to Brokers for Securities Purchased	119,560,327	—	—	—	119,560,327
Salaries/Withholdings Payable	14,618,591	—	—	—	14,618,591
Funds Held for Others	—	—	—	341,346,412	341,346,412
Deferred Revenue	10,223	—	—	—	10,223
Compensated Absences Payable	28,691	—	124,333	—	153,024
Capital Leases Payable	9,901	—	—	—	9,901
Other Liabilities	—	—	—	76,360,378	76,360,378
Total Liabilities	$ 149,788,793	$ 0	$ 145,471	$ 422,636,154	$ 572,570,418
Net Assets					
Held in Trust for:					
Pension Benefits	$ 60,293,058,105	$ —	$ —	$ —	$ 60,293,058,105
Pool Participants	—	3,731,433,398	—	—	3,731,433,398
Other Purposes	—	—	10,668,247	—	10,668,247
Total Net Assets	$ 60,293,058,105	$ 3,731,433,398	$ 10,668,247	$ 0	$ 64,035,159,750

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Pension Trust	Investment Trust	Private Purpose Trust	Total
Additions:				
Contributions/Assessments				
Employer	$ 1,061,590,646	$ —	$ —	$ 1,061,590,646
Plan Members/Participants	541,871,950	—	94,692,628	636,564,578
Other Contributions				
Fines and Bond Forfeitures	21,755,196	—	—	21,755,196
Insurance Company Premium Taxes	19,365,022	—	—	19,365,022
Other Fees	2,618,397	—	—	2,618,397
Interest and Other Investment Income				
Dividends and Interest	1,532,072,691	90,575,564	1,048,848	1,623,697,103
Net Appreciation (Depreciation) in Investments Reported at Fair Value	2,879,672,520	(3,948,557)	—	2,875,723,963
Less: Investment Expense	(58,511,749)	(1,103,899)	—	(59,615,648)
Pool Participant Deposits	—	5,325,829,494	—	5,325,829,494
Other				
Transfers from Other Funds	3,417,505	—	—	3,417,505
Miscellaneous	450,412	—	1,527	451,939
Total Additions	$ 6,004,302,590	$ 5,411,352,602	$ 95,743,003	$ 11,511,398,195
Deductions:				
General and Administrative Expenses	$ 32,078,121	$ —	$ 2,418,719	$ 34,496,840
Benefits	2,673,929,362	—	94,349,657	2,768,279,019
Pool Participant Withdrawals	—	5,544,444,604	—	5,544,444,604
Refunds	67,970,844	—	—	67,970,844
Total Deductions	$ 2,773,978,327	$ 5,544,444,604	$ 96,768,376	$ 8,415,191,307
Change in Net Assets Held in Trust for:				
Pension Benefits	$ 3,230,324,263	$ —	$ —	$ 3,230,324,263
Pool Participants	—	(133,092,002)	—	(133,092,002)
Other Purposes	—	—	(1,025,373)	(1,025,373)
Net Assets, July 1 (Restated)	57,062,733,842	3,864,525,400	11,693,620	60,938,952,862
Net Assets, June 30	$ 60,293,058,105	$ 3,731,433,398	$ 10,668,247	$ 64,035,159,750

The notes to the financial statements are an integral part of this statement.

State of Georgia

Combining Statement of Net Assets
Component Units
For the Fiscal Year Ended June 30, 2005

	Environmental Facilities Authority	Georgia Tech Foundation, Incorporated	Housing and Finance Authority
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 284,197,814	$ 3,125,000	$ 25,992,506
Investments	87,961,231	4,800,000	10,208,189
Receivables			
Accounts (Net)	9,571,975	5,948,457	—
Taxes	—	—	—
Interest and Dividends	6,750,908	—	718,456
Notes and Loans	—	728,000	—
Due from Primary Government	—	—	—
Due from Component Units	—	—	—
Intergovernmental Receivables	—	—	—
Inventories	—	—	—
Prepaid Items	—	—	—
Other Current Assets	—	6,263,233	14,167,091
Noncurrent Assets:			
Investments	96,143,711	1,003,837,000	70,364,797
Receivables (Net)			
Notes and Loans	—	1,284,000	183,473,850
Other	—	180,591,310	—
Due from Component Units	—	—	—
Restricted Assets			
Cash and Cash Equivalents	7,622,275	—	98,110,935
Investments	—	—	18,239,548
Receivables			
Loans (Net)	748,865,604	—	544,868,079
Interest and Dividends	—	—	5,837,488
Other	—	—	—
Deferred Charges	—	—	13,875,390
Capital Assets:			
Land	—	2,553,000	800,000
Buildings and Building Improvements	—	38,051,000	3,865,000
Improvements Other Than Buildings	—	—	1,434,846
Machinery and Equipment	51,694	6,805,000	767,405
Software	—	—	—
Works of Art and Collections	—	—	—
Infrastructure	—	—	—
Construction in Progress	—	—	—
Accumulated Depreciation	(35,488)	(4,567,000)	(3,241,794)
Other Noncurrent Assets	62,885	21,540,000	—
Total Assets	$ 1,241,192,609	$ 1,270,959,000	$ 989,481,786

The notes to the financial statements are an integral part of this statement.

Lottery Corporation	Road and Tollway Authority	Nonmajor Component Units	Total
$ 2,003,865	$ 4,383,122	$ 553,825,323	$ 873,527,630
—	20,655,041	147,663,188	271,287,649
101,057,000	21,779	295,297,320	411,896,531
—	—	267,734	267,734
—	—	3,523,945	10,993,309
—	—	87,967,224	88,695,224
—	—	8,539,516	8,539,516
—	—	10,302,000	10,302,000
—	—	5,513,103	5,513,103
—	—	14,374,404	14,374,404
1,152,000	—	1,921,104	3,073,104
—	—	67,088,075	87,518,399
—	—	897,332,404	2,067,677,912
—	—	82,772,672	267,530,522
—	—	182,884,086	363,475,396
—	—	61,369,437	61,369,437
440,000	30,774,125	10,776,963	147,724,298
218,424,000	285,334,782	40,525,154	562,523,484
—	—	—	1,293,733,683
—	—	—	5,837,488
—	—	61,700	61,700
—	3,727,713	—	17,603,103
—	10,415,915	258,345,740	272,114,655
2,396,000	4,938,197	1,229,638,271	1,278,888,468
—	2,484,921	244,160,001	248,079,768
14,019,000	4,618,709	480,840,708	507,102,516
437,000	685,429	—	1,122,429
—	—	201,048	201,048
—	—	154,272,387	154,272,387
—	—	177,338,654	177,338,654
(14,647,000)	(8,717,577)	(781,015,249)	(812,224,108)
—	35,870,493	64,216,526	121,689,904
$ 325,281,865	$ 395,192,649	$ 4,300,003,438	$ 8,522,111,347

(continued)

Combining Statement of Net Assets
Component Units (continued)
June 30, 2005

	Environmental Facilities Authority	Georgia Tech Foundation, Incorporated	Housing and Finance Authority
Liabilities			
Current Liabilities:			
Accounts Payable and Other Accruals	$ 2,731,517	$ 1,517,593	$ 23,924,353
Due to Primary Government	313	5,131,821	725,612
Due to Component Units	—	10,302,000	—
Salaries/Withholdings Payable	—	—	—
Accrued Interest Payable	1,112,275	—	2,509,565
Contracts Payable	—	—	—
Funds Held for Others	—	—	—
Deferred Revenue	7,974,749	—	—
Compensated Absences Payable - Current	43,671	268,431	—
Capital Leases/Installment Purchases Payable - Current	—	—	—
Notes and Loans Payable - Current	—	—	—
Revenue Bonds Payable - Current	6,510,000	4,180,000	50,751,000
Grand Prizes Payable - Current	—	—	—
Other Current Liabilities	—	9,511,565	32,759,685
Current Liabilities Payable from Restricted Assets:			
Accrued Interest Payable	—	—	—
Deferred Revenue	—	—	—
Revenue Bonds Payable - Current	—	—	—
Other	—	—	—
Noncurrent Liabilities:			
Deferred Revenue	—	—	192,826,330
Compensated Absences Payable	174,686	—	—
Capital Leases/Installment Purchases Payable	—	—	—
Notes and Loans Payable	—	—	—
Revenue/Mortgage Bonds Payable	40,929,957	217,875,000	559,938,683
Grand Prizes Payable	—	—	—
Advances from Primary Government	—	—	—
Due to Component Units	—	61,369,437	—
Other Noncurrent Liabilities	—	67,198,153	—
Total Liabilities	$ 59,477,168	$ 377,354,000	$ 863,435,228
Net Assets			
Invested in Capital Assets, Net of Related Debt	$ 16,206	$ 3,175,347	$ 3,625,457
Restricted for:			
Bond Covenants/Debt Service	25,205,835	—	—
Construction	—	12,031,906	—
Higher Education			
Expendable	—	266,785,094	—
Nonexpendable	—	296,172,000	—
Loan and Grant Programs	23,321,625	—	—
Other Purposes	—	—	—
Unrestricted	1,133,171,775	315,440,653	122,421,101
Total Net Assets	$ 1,181,715,441	$ 893,605,000	$ 126,046,558

The notes to the financial statements are an integral part of this statement.

	Lottery Corporation	Road and Tollway Authority	Nonmajor Component Units	Total
	$ 54,958,000	$ 1,735,058	$ 101,354,551	$ 186,221,072
	46,692,865	23,322,005	74,688,539	150,561,155
	—	—	—	10,302,000
	—	—	7,561,139	7,561,139
	—	—	—	3,621,840
	—	—	7,235,840	7,235,840
	—	—	20,523,919	20,523,919
	—	—	86,770,920	94,745,669
	222,000	—	10,987,419	11,521,521
	—	—	1,817,060	1,817,060
	—	—	64,223,828	64,223,828
	—	29,790,000	16,029,164	107,260,164
	12,323,000	—	—	12,323,000
	—	—	34,379,677	76,650,927
	—	10,342,992	4,763,009	15,106,001
	—	3,416,237	—	3,416,237
	—	—	6,380,000	6,380,000
	—	152,307	—	152,307
	—	—	165,318,647	358,144,977
	1,611,000	—	6,199,090	7,984,776
	—	—	13,111,443	13,111,443
	—	—	56,344,210	56,344,210
	—	666,448,466	1,135,329,418	2,620,521,524
	192,941,000	—	—	192,941,000
	—	—	28,461,917	28,461,917
	—	—	—	61,369,437
	494,000	—	50,784,411	118,476,564
	$ 309,241,865	$ 735,207,065	$ 1,892,264,201	$ 4,236,979,527
	$ 2,205,000	$ 14,425,594	$ 914,597,311	$ 938,044,915
	—	—	28,462,144	53,667,979
	—	—	13,794,300	25,826,206
	—	—	348,787,477	615,572,571
	—	—	589,491,736	885,663,736
	—	—	—	23,321,625
	440,000	—	4,504,315	4,944,315
	13,395,000	(354,440,010)	508,101,954	1,738,090,473
	$ 16,040,000	$ (340,014,416)	$ 2,407,739,237	$ 4,285,131,820

Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2005

	Environmental Facilities Authority	Georgia Tech Foundation, Incorporated	Housing and Finance Authority
Expenses	$ 30,947,380	$ 60,260,000	$ 87,038,856
Program Revenues:			
Sales and Charges for Services	$ 27,903,883	$ 15,472,000	$ 47,646,693
Operating Grants and Contributions	29,430,457	68,446,073	34,326,822
Capital Grants and Contributions	81,341,763	—	—
Total Program Revenues	$ 138,676,103	$ 83,918,073	$ 81,973,515
Net (Expenses) Revenue	$ 107,728,723	$ 23,658,073	$ (5,065,341)
General Revenues:			
Taxes	$ —	$ —	$ —
Unrestricted Investment Income	541,713	40,306,334	11,984,395
Payments from the State of Georgia	—	—	—
Permanent Endowment Contributions	—	16,822,593	—
Other	77,096	—	—
Total General Revenues	$ 618,809	$ 57,128,927	$ 11,984,395
Change in Net Assets	$ 108,347,532	$ 80,787,000	$ 6,919,054
Net Assets, July 1	1,073,367,909	812,818,000	119,127,504
Change in Accounting Principle	—	—	—
Correction of Prior Year Errors			
Capital Assets	—	—	—
Accumulated Depreciation	—	—	—
Net Assets, June 30	$ 1,181,715,441	$ 893,605,000	$ 126,046,558

The notes to the financial statements are an integral part of this statement.

Lottery Corporation	Road and Tollway Authority	Nonmajor Component Units	Total
$ 2,739,572,000	$ 236,969,656	$ 1,511,933,889	$ 4,666,721,781
$ 2,739,049,000	$ 20,353,541	$ 762,912,111	$ 3,613,337,228
—	—	685,565,538	817,768,890
—	—	31,062,609	112,404,372
$ 2,739,049,000	$ 20,353,541	$ 1,479,540,258	$ 4,543,510,490
$ (523,000)	$ (216,616,115)	$ (32,393,631)	$ (123,211,291)
$ —	$ —	$ 22,877,734	$ 22,877,734
7,470,000	7,673,915	56,496,796	124,473,153
—	80,026,216	105,284,204	185,310,420
—	—	5,386,236	22,208,829
—	45,810	20,268,115	20,391,021
$ 7,470,000	$ 87,745,941	$ 210,313,085	$ 375,261,157
$ 6,947,000	$ (128,870,174)	$ 177,919,454	$ 252,049,866
9,093,000	(211,144,242)	2,604,443,366	4,407,705,537
—	—	(367,330,809)	(367,330,809)
—	—	6,485,776	6,485,776
—	—	(13,778,550)	(13,778,550)
$ 16,040,000	$ (340,014,416)	$ 2,407,739,237	$ 4,285,131,820

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Notes to the Financial Statements
Index

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

With the exception of the departures from generally accepted accounting principles (GAAP) disclosed in the following paragraphs, the financial statements of the State of Georgia have been prepared in conformity with GAAP as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which are set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

B. Financial Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered both the organizations that comprise the primary government and potential component units. The primary government consists of all the organizations that compose the legal entity of the State of Georgia. All agencies, departments, authorities, commissions, courts, councils, boards, universities, colleges, retirement funds, associations and other funds that are not legally separate are, for financial reporting purposes, considered part of the primary government. In addition, included within the primary government are organizations which are legally separate but so intertwined with the primary government that they are, in substance, part of the primary government.

The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Section 2100 of the GASB Codification. This Section defines a component unit as a legally separate organization for which the primary government is financially accountable and other organizations for which the primary government is not accountable, but for which the nature and the significance of the relationship with the primary government, including the ongoing financial support of the primary government or its other component units, are such that exclusion would cause the financial statements to be misleading or incomplete.

Financial accountability is the ability of the State to appoint a voting majority of an organization's governing board and to impose its will upon the organization or when there exists the potential for the organization to provide specific financial benefits or impose specific financial burdens on the primary government.

In addition, organizations that are fiscally dependent upon the primary government were considered as potential component units.

Blended Component Units
As required by GAAP, these financial statements present the government and its component units. Blended component units, although legally separate entities are, in substance, part of the government's operations and therefore data from these units are combined with that of the primary government. The blended component units are as follows:

Capital Projects Funds
Georgia Building Authority (Hospital).
Georgia Building Authority (Markets)
Georgia Building Authority (Penal)
Georgia Education Authority (University)

Enterprise Funds
Higher Education Fund
  Georgia Military College
Georgia Technology Authority

Internal Service Funds
Georgia Building Authority
Georgia Correctional Industries Administration

Discretely Presented Component Units
Discrete presentation entails reporting component unit financial data in columns separate from the financial data of the primary government. The discretely presented component units are as follows:

Authorities and Similar Organizations
Geo. L. Smith II Georgia World Congress Center Authority
Georgia Agricultural Exposition Authority
Georgia Agrirama Development Authority
Georgia Development Authority
Georgia Environmental Facilities Authority
Georgia Golf Hall of Fame Authority
Georgia Higher Education Assistance Corporation
Georgia Highway Authority
Georgia Housing and Finance Authority
Georgia International and Maritime Trade Center Authority
Georgia Lottery Corporation
Georgia Music Hall of Fame Authority
Georgia Ports Authority
Georgia Public Telecommunications Commission
Georgia Rail Passenger Authority
Georgia Regional Transportation Authority
Georgia Seed Development Commission
Georgia Sports Hall of Fame Authority
Georgia Student Finance Authority

Note 1. Summary of Significant Accounting Policies (continued)

Jekyll Island State Park Authority
Lake Lanier Islands Development Authority
North Georgia Mountains Authority
Oconee River Greenway Authority
OneGeorgia Authority
Regional Educational Service Agencies
Sapelo Island Heritage Authority
Southwest Georgia Railroad Excursion Authority
State Road and Tollway Authority
Stone Mountain Memorial Association
Superior Court Clerks' Cooperative Authority

Higher Education Foundations and Similar Organizations
Georgia College and State University Foundation
Georgia Southern University Housing Foundation, Incorporated
Georgia State University Foundation
Georgia Tech Athletic Association
Georgia Tech Facilities, Incorporated
Georgia Tech Foundation, Incorporated
Georgia Tech Research Corporation
Kennesaw State University Foundation, Incorporated
Medical College of Georgia Foundation, Incorporated
Medical College of Georgia Health, Incorporated
University of Georgia Athletic Association, Incorporated
University of Georgia Foundation
University of Georgia Research Foundation, Incorporated

Fiduciary Component Units
Fiduciary component units are required by GAAP to be reported as fiduciary funds of the primary government rather than as discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements. The fiduciary component units are as follows:

Pension Trust Funds
Employees' Retirement System of Georgia
Georgia Military Pension Fund
Legislative Retirement System
Public School Employees Retirement System
Teachers Retirement System of Georgia

The State's significant component units issue their own separate audited financial statements. The financial statements for fiduciary component units and authorities and similar organizations can be obtained from their respective administrative offices or from the Georgia Department of Audits and Accounts, 270 Washington Street, S.W., Suite 1-156, Atlanta, Georgia 30334. The financial statements for the higher education foundations and similar organizations can be obtained from their respective administrative offices or from the Board of Regents of the University System of Georgia, 270 Washington Street, S.W., Atlanta, Georgia 30334.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements
The Statement of Net Assets and Statement of Activities display information about the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are financed through taxes, intergovernmental revenues, and other non-exchange revenues are reported separately from business-type activities, which are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from its discretely presented component units.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements
Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

Note 1. Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenues in the fiscal year in which eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Principal revenue sources that are susceptible to accrual include income taxes, sales and use taxes, federal grants and shared revenues. Expenditures generally are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due or when amounts have been accumulated in the debt service fund for payments to be made early in the subsequent fiscal year.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As allowed by GASB Statement No. 20, the State's proprietary funds follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The State reports the following major governmental funds:

The ***General Fund*** is used to account for all financial transactions not required to be accounted for in another fund. These transactions relate to resources obtained and used for services traditionally provided by a state government.

The ***Georgia State Financing and Investment Commission*** *(Capital Projects Fund)* accounts for the construction of projects for state agencies financed through the issuance of public debt, including educational facilities for county and independent school systems.

The State reports the following major enterprise funds:

The ***Higher Education Fund*** accounts for the operations of State colleges and universities and State technical colleges.

The ***State Employees' Health Benefit Plan*** is a self-insured program of health benefits for the employees of units of government of the State of Georgia, units of county government and local education agencies located within the State of Georgia.

The ***Unemployment Compensation Fund*** accounts for the collection of employers' unemployment insurance tax and the payment of unemployment insurance benefits.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Debt Service Funds – Used to account for the payment of principal and interest on general long-term debt.

The primary government debt service fund is the General Obligation Debt Sinking Fund, which is administered by the Office of Treasury and Fiscal Services. The Debt Sinking Fund is a legally mandated fund responsible for the payment of principal and interest on general obligation bonds.

Capital Projects Funds - Used to account for the acquisition or construction of capital facilities.

Permanent Funds – Used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its citizenry.

Note 1. Summary of Significant Accounting Policies (continued)

Proprietary Fund Types:

Enterprise Funds – Used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public, or where sound financial management dictates that periodic determination of results of operations are appropriate.

Internal Service Funds - Used to account for the financing of goods or services provided by one department or agency to other State departments or agencies, or to other governmental entities, on a cost-reimbursement basis. The predominant participant in internal service fund activity is the primary government.

Fiduciary Fund Types:

Pension Trust Funds – Used to account for the retirement systems and plans administered by the Employees' Retirement System, for the Teachers Retirement System, and for pension plans administered on behalf of a variety of categories of local government officials and employees.

Investment Trust Funds – Used to account for external portions of government-sponsored investment pools.

Private Purpose Trust Funds – Used to report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

Agency Funds - Used to report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

Discretely Presented Component Units:

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component units column of the government-wide statements. The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units, other than certain higher education foundations and similar organizations, follow all GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Certain higher education foundations and similar organizations report under FASB standards; including FASB Statement No. 117, *Financial Reporting for Not-for Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports were reclassified to GASB presentation in these financial statements.

E. Budgets

The annual budget of the State of Georgia is prepared on the modified accrual basis utilizing encumbrance accounting with the following exceptions: federal and certain other revenues are accrued based on the unexecuted portion of long-term contracts; and intrafund transactions are disclosed as revenues and expenditures. The budget represents departmental appropriations recommended by the Governor and adopted by the General Assembly prior to the beginning of the fiscal year. Annual appropriated budgets are adopted at the departmental level. The appropriated budget covers most governmental funds included in the State reporting entity but excludes the capital projects funds and certain debt service funds that are not subject to appropriation. The budget includes certain proprietary funds, the Higher Education Fund, and the administrative costs of operating certain public employee retirement systems. All unencumbered annual appropriations lapse at fiscal year end unless otherwise specified by constitutional or statutory provisions. Supplementary and amended appropriations may be enacted during the next legislative session by the same process used for original appropriations.

Encumbrances are used to indicate the intent to purchase goods or services. Liabilities and expenditures are recorded upon issuance of completed purchase orders. Goods or services need not have been received for liabilities and expenditures to be recorded.

F. Assets, Liabilities, and Net Assets/Fund Balances

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand and demand deposits with banks and other financial institutions. Cash and cash equivalents also include short-term, highly liquid investments with maturity dates within three months of the date acquired, with the exception of the Higher Education Fund and higher education foundations and similar organizations, which report all time deposits with maturity dates less than thirteen months of the date acquired as cash.

Note 1. Summary of Significant Accounting Policies (continued)

Investments
Investments are defined as those financial instruments with terms in excess of three months from the date of purchase and certain other securities held for the production of revenue. Investments are presented at fair value. The State Depository Board may permit any department, board, bureau or other agency to invest funds collected directly by such organization in short term time deposit agreements, provided that the interest income of those funds is remitted to the Director of the Office of Treasury and Fiscal Services as revenues of the State of Georgia. As a matter of general practice, however, demand funds of any department, board, bureau or other agency in excess of current operating expenses are required to be deposited with the Director of the Office of Treasury and Fiscal Services for the purpose of pooled investment (OCGA 50-17-63). Such cash is managed in a pooled investment fund to maximize interest earnings. The pooled investment funds "Georgia Fund 1" and "Georgia Extended Asset Pool" are also available on a voluntary basis to organizations outside of the State reporting entity.

The Georgia Fund 1 or Primary Liquidity Portfolio's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal. Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and values participants' shares sold and redeemed at the pool's share price, $1.00 per share. Investments are directed toward short-term instruments. At June 30, 2005, the weighted average maturity of the Fund was 24 days.

The Georgia Extended Asset Pool is part of the Extended Term Portfolio. The pool's primary objective is the prudent management of public funds on behalf of the State of Georgia and local governments seeking income higher than money market rates. Net Asset Value (NAV) is calculated daily to determine current share price. NAV is calculated by taking the closing fair value of securities owned plus other assets and subtracting liabilities. The remainder is then divided by the total number of shares outstanding to compute NAV per share (current share price). The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on the current share price, which at June 30, 2005, was $1.98 per share. Investments consist generally of securities issued or guaranteed as to principal and interest by the U. S. Government or any of its agencies or instrumentalities, bankers' acceptances and repurchase agreements. The average investment duration at June 30, 2005, was 0.92 years.

Units of the University System of Georgia and their affiliated organizations may participate in the Regents Investment Pool. The fair value of the investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest it earns. The Regents Investment Pool maintains an assortment of funds which invest in diverse holdings with varying investment objectives.

The State's Unemployment Compensation Fund monies are required by the Social Security Act to be invested in the U. S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

Certain Higher Education Foundations (component units) held derivative financial instruments at year end: futures and hedge funds, real estate investment trusts and venture capital.

The Commissioner of the Department of Agriculture is directed by statute to require dealers in certain agricultural products and livestock to make and deliver to the Department a surety or cash bond to secure the faithful accounting for and payment to producers of the proceeds of agricultural products or livestock handled or sold by the dealer. Cash bonds are required to designate the Department as trustee of the funds and may take the form of certificates of deposit, letters of credit, money orders or cashiers' checks. At June 30, 2005, the Department held surety bonds in the amount of $37,460,426, and cash bonds in the amount of $14,539,946. These bonds are not recorded on the Balance Sheet.

Securities are held pursuant to statutes that require licensed insurance companies to deposit securities with the Department of Insurance prior to issuance of a certificate of authority to transact insurance by the Commissioner of Insurance. These securities remain in the name of the licensed insurance company as long as the company has a pending claim in the State of Georgia or until a proper order of a court of competent jurisdiction has been issued to the receiver, conservator, rehabilitator, or liquidator of the insurer or to any other properly designated official or officials who succeed to the management and control of the insurer's assets. The purchase and redemption of such securities are allowed as long as the required levels of

Note 1. Summary of Significant Accounting Policies (continued)

deposits are maintained. At June 30, 2005, securities valued at $217,514,020 were held by the Department of Insurance. These securities are not recorded on the Balance Sheet.

Receivables
Receivables in the State's governmental funds pertain primarily to Federal revenues and revenues applicable to charges for services. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (See Note 1-D) have been met. Estimates of allowances for uncollectible receivables have not been made for the majority of receivables included within the financial statements. Receivables from the Federal government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Due To/From Other Funds
Equally offsetting asset and liability accounts are used to account for amounts owed to a particular fund by another fund for short-term obligations on goods sold or services rendered.

Advances
Noncurrent portions of long-term interfund loans receivable are reported as advances and are offset equally by a fund balance reserve account that indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

Inventories
Inventories of supplies and materials are determined by physical count and/or perpetual inventory records and are valued at cost, weighted average cost, moving average cost, or lower of weighted average cost or market, using the first-in/first-out (FIFO) method, depending on the individual organization's preference. The costs of governmental fund inventories are recorded as expenditures when consumed rather than when purchased for larger agencies and agencies with material inventories. Other agencies may use either the purchase or consumption method.

Under the purchase method, a portion of the fund balance is reserved for inventories to indicate that it is not available for appropriation. Organizations under the consumption method normally reserve a portion of fund balance equal to the average monthly inventories on hand for the fiscal year.

Prepaid Items
Payments made to vendors and local government organizations for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items.

Restricted Assets
Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets
Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide Statement of Net Assets. Capital assets of the State's proprietary funds and component units are capitalized in the fund in which they are utilized. Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. All land and non-depreciable land improvements are capitalized regardless of cost. Buildings and Improvements Other Than Buildings are capitalized when the cost or value exceeds $100,000. Machinery and Equipment is capitalized when costs or value exceeds $5,000. The State's bridges and roadways included in the state highway system are capitalized regardless of cost. All other infrastructure assets are capitalized when project costs exceed $1,000,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized. The State holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

Major outlays for construction of bridges and roadways in the state highway system are capitalized as projects are constructed. All other major construction projects are capitalized when projects are completed. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset.

All depreciable capital assets are depreciated on the straight-line basis over the following useful lives:

Infrastructure	10-100 years
Buildings and Building Improvements	5-60 years
Improvements Other Than Buildings	15-50 years
Machinery and Equipment	3-20 years
Software	3-10 years
Library Collections	10 years

Note 1. Summary of Significant Accounting Policies (continued)

Certain general governmental capital assets acquired through capital leases in prior years have not been recorded on the financial statements at the net present value of the minimum lease payments as is required by GAAP.

Compensated Absences
Employees earn annual leave ranging from ten to fourteen hours each month depending upon the employee's length of continuous State service with a maximum accumulation of forty-five days. Employees are paid for unused accumulated annual leave upon retirement or termination of employment. Funds are provided in the appropriation of funds each fiscal year to cover the cost of annual leave of terminated employees. The State's obligation for accumulated unpaid annual leave is reported as a liability in the government-wide and proprietary fund financial statements.

Employees earn ten hours of sick leave each month with a maximum accumulation of ninety days. Sick leave does not vest with the employee. Unused accumulated sick leave is forfeited upon retirement or termination of employment. However, certain employees who retire with one hundred and twenty days or more of forfeited annual and sick leave are entitled to additional service credit in the Employees' Retirement System of Georgia. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Deferred Revenue
In the government-wide statements, proprietary fund statements, and fiduciary fund statements, deferred revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable.

Long-Term Obligations
Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column or business-type activities column on the government-wide statement of net assets and on the proprietary fund statement of net assets in the fund financial statements. Bond discounts, premiums and issuance costs are deferred and amortized over the life of the bonds using a method that approximates the effective interest method or the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges (assets) and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets
Net assets are reported as invested in capital assets, net of related debt, restricted or unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The governmental activities column on the government-wide statement of net assets reports $2,248,833,736 of restricted net assets, of which $2,244,279,662 is restricted by enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, indicating they are not available for general operations. Such designations have internally imposed constraints on resources, but can be removed or modified.

Fund Balances
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans for future use of financial resources. Unreserved, undesignated fund balance (deficit) is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated.

Note 1. Summary of Significant Accounting Policies (continued)

G. Revenues

Federal grants include nonmonetary transactions for food and vaccine commodities. Commodities revenue and expenditures are recorded at their federally reported value. Commodity inventories of $2,813,701 are reported on the Balance Sheet. For the fiscal year ended June 30, 2005, revenues of $68,770,862 and expenditures of $68,816,882 for commodities are reported in the General Fund.

H. Interfund Activity and Balances

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources. Transfers and balances between funds are made to accomplish various provisions of law.

Interfund payables and receivables have been eliminated from the statement of net assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets.

I. Fiscal Reporting Periods

The fiscal year end for the primary government and component units is June 30, except for the Stone Mountain Memorial Association (component unit), which has a fiscal year end of December 31.

Note 2. Accounting Changes

In fiscal year 2004, implementation of GASB Statement 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14* required that certain higher education foundations and similar organizations be reported as component units. These organizations were considered for inclusion based upon their significance to the college/university with which they were affiliated. In fiscal year 2005, it was determined that in accordance with GASB Statement 39, such organizations should be considered for inclusion based on their significance to the primary government, rather than to an individual unit. The beginning net assets of the component units have been decreased by $367,330,809, and the beginning net assets of the fiduciary funds - investment trust (Regents Investment Pool) have been increased by $26,555,318 for this change in the application of an accounting principle.

In fiscal year 2005, responsibility for the operations of Gwinnett Technical College was transferred to the State. The beginning net assets of the Higher Education Fund (major proprietary fund) have been increased by $32,639,138 for this addition to the reporting entity.

In fiscal year 2005, the State of Georgia implemented the provisions of GASB Statement 40, *Deposits and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This pronouncement requires additional disclosures presented in these notes, but has no impact on the State's net assets. These disclosures address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Included as an element of interest rate risk, Statement 40 requires disclosures of investments that have fair values that are highly sensitive to interest rates. The change is reflected in Note 3.

GASB Statement 46, *Net Assets Restricted by Enabling Legislation Disclosures – an amendment of GASB Statement No. 34*, was early implemented for the fiscal year ended June 30, 2005. As a result, a disclosure related to restricted net assets was added. Implementing this Statement did not result in any other reporting changes. The change is reflected in Note 1F (Net Assets).

The following tables summarize the changes in fund equities as previously reported for the funds and activities at June 30, 2004, including correction of prior year errors as indicated.

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 2. Accounting Changes (continued)

	June 30, 2004 As Previously Reported	Adjustments	June 30, 2004 (Restated)
Governmental Funds and Activities			
Major Funds:			
General Fund (Correction of Prior Year Errors)	$ 3,548,277,078	$ (23,568,658)	$ 3,524,708,420
Georgia State Financing and Investment Commission	1,228,811,620	—	1,228,811,620
Nonmajor Funds:			
Debt Service Fund	0	—	0
Capital Projects Funds	8,919,102	—	8,919,102
Permanent Fund	13,500	—	13,500
Total Governmental Funds	$ 4,786,021,300	$ (23,568,658)	$ 4,762,452,642
Capital Assets, net of depreciation (Correction of Prior Year Errors)	14,591,464,471	1,282,524,637	15,873,989,108
Other Noncurrent Assets (Correction of Prior Year Errors)	37,890,337	5,602,156	43,492,493
Long-Term Liabilities (Correction of Prior Year Errors)	(6,807,261,686)	(43,890,360)	(6,851,152,046)
Other Liabilities	(179,502,687)	68,102,052	(111,400,635)
Inclusion of Internal Service Funds in Governmental Activities	1,192,135,078	(5,335,520)	1,186,799,558
Total Governmental Funds and Activities	$ 13,620,746,813	$ 1,283,434,307	$ 14,904,181,120
Proprietary Funds and Business-Type Activities			
Major Funds:			
Higher Education Fund	$ 4,439,573,679		$ 4,484,559,698
Addition to Reporting Entity (Gwinnett Technical College)		$ 32,639,138	
Correction of Prior Year Errors		12,346,881	
State Employees' Health Benefit Plan	346,458,369	—	346,458,369
Unemployment Compensation Fund (Correction of Prior Year Errors)	875,924,570	138,411,632	1,014,336,202
Correction of Prior Year Errors			
Nonmajor Funds:			
Enterprise Fund	112,198,199	—	112,198,199
Internal Service Funds (Correction of Prior Year Errors)	1,142,265,119	(5,335,520)	1,136,929,599
Internal Service Funds Look-Back Adjustments			
Removal of Internal Service Funds Relating to Governmental Activities	(1,192,135,078)	5,335,520	(1,186,799,558)
Total Proprietary Funds and Business-Type Activities	$ 5,724,284,858	$ 183,397,651	$ 5,907,682,509
Fiduciary Funds			
Pension Trust Funds (Correction of Prior Year Errors)	$ 57,077,989,675	$ (15,255,833)	$ 57,062,733,842
Investment Trust Funds (Addition of Regents Investment Pool)	3,837,970,082	26,555,318	3,864,525,400
Private Purpose Trust Funds	11,693,620	—	11,693,620
Total Fiduciary Funds	$ 60,927,653,377	$ 11,299,485	$ 60,938,952,862
Discretely Presented Component Units	$ 4,407,705,537		$ 4,407,705,537
Removal of Higher Education Foundations and Similar Organizations		$ (367,330,809)	(367,330,809)
Correction of Prior Year Errors		(7,292,774)	(7,292,774)
Total Discretely Presented Component Units	$ 4,407,705,537	$ (374,623,583)	$ 4,033,081,954

Note 3. Deposits and Investments

A. Deposits

Deposits include bank accounts and short-term investments, especially certificates of deposit. Funds belonging to the State of Georgia cannot be placed in a depository paying interest longer than ten days without the depository providing a surety bond to the State. In lieu of a surety bond, the depository may pledge as collateral any one or more of the following securities as enumerated in OCGA 50-17-59:

1) Bonds, bills, notes, certificates of indebtedness, or other direct obligations of the United States or of the State of Georgia.

2) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.

3) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.

4) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia.

5) Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest and debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association and the Federal National Mortgage Association.

6) Guarantee or insurance of accounts provided by the Federal Deposit Insurance Corporation.

As authorized in OCGA 50-17-53, the State Depository Board has adopted policies that allow agencies of the State of Georgia the option of exempting demand deposits from the collateral requirements.

Custodial Credit Risk – Deposits
The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State's deposits may not be recovered.

Primary Government
At year-end, the carrying amounts of the State's deposits were $1,220,654,231, and the bank balances were $1,948,789,674 Of these bank balances, $835,183,456 were insured, $105,705,823 were collateralized with securities held by the pledging financial institutions, $189,673,847 were collateralized with securities held by pledging institutions' trust departments or agents, but not in the State's name and $818,226,548 were uncollateralized.

Component Units
At year-end the carrying amounts of the component units' deposits were $391,925,915 and the bank balances were $395,439,279. Of these bank balances, $88,233,515 were insured, $33,285,073 were collateralized with securities held by the pledging financial institutions, $133,148,981 were collateralized with securities held by pledging institutions' trust departments or agents, but not in the State's name and $140,771,710 were uncollateralized.

The carrying amounts of the deposits of certain higher education foundations which utilize FASB standards were $190,719,759. These deposits are not included in the balances reflected, above.

Note 3. Deposits and Investments (continued)

B. Investments

Primary Government (Other than Pension Trust Funds)
The investment policy of the State of Georgia is to maximize the protection of State funds on deposit while accruing an advantageous yield on those funds in excess of those required for current operating expenses (Official Code of Georgia Annotated [OCGA] 50-17-51).

Authorized pool investments are limited to the following in accordance with State statutes:

1) Obligations of the State of Georgia or of other states;
2) Obligations issued by the United States government;
3) Obligations fully insured or guaranteed by the United States government or a United States government agency;
4) Obligations of any corporation of the United States government;
5) Prime banker's acceptances;
6) Repurchase Agreements;
7) Obligations of other political subdivisions of the State; and
8) Commercial paper issued by domestic corporations.

Authorized investments are subject to certain restrictions.

Pooled cash and cash equivalents and investments are grouped into portfolios for investment purposes according to the operating needs of the State of Georgia and other pool contributors.

Pension Trust Funds
In accordance with Official Code of Georgia Annotated Public Retirement System Investment Authority Law, Public Retirement Systems may invest in the following:

1) United States or Canadian corporations or their obligations with limits as to the corporations' size and credit rating.
2) Repurchase and reverse repurchase agreements for direct obligations of the United States government and for obligations unconditionally guaranteed by agencies.
3) FDIC insured cash assets or deposits.
4) Bonds, notes, warrants, loans or other debt issued or guaranteed by the United State government.
5) Taxable bonds, notes warrants or other securities issued and guaranteed by any state, the District of Columbia, Canada or any province in Canada.
6) Bonds, debentures or other securities issued or insured or guaranteed by an agency, authority, unit, or corporate body created by the government of the United States of America.
7) Investment grade collateralized mortgage obligations.
8) Obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation.
9) Bonds, debentures, notes and other evidence of indebtedness issued, assumed, or guaranteed by any solvent institution existing under the laws of the United States of America or of Canada, or any state or province thereof, which are not in default and are secured to a certain level.
10) Secured and unsecured obligations issued by any solvent institution existing under the laws of the United States of America or of Canada, or any state or province thereof, bearing interest at a fixed rate, with mandatory principal and interest due at a specified time with additional limits.
11) Equipment trust obligations or interests in transportation equipment, wholly or in part within the United States of America, and the right to receive determinated portions or related income.
12) Loans that are secured by pledge or securities eligible for investment.
13) Purchase money mortgages or like securities received upon the sale or exchange of real property acquired.
14) Secured mortgages or mortgage participation, pass-through, conventional pass-through, trust certificate, or other similar securities with restrictions.
15) Land and buildings on such land used or acquired for use as a fund's office for the convenient transaction of its own business with restrictions.
16) Real property and equipment acquired under various circumstances.

In addition, large retirement systems have restrictions as to the concentration of investments in corporations and equities and additional stipulations exist related to decreases in a fund's asset value.

Component Units
Component units follow applicable investing criteria described above for the primary government.

Note 3. Deposits and Investments (continued)

Certain higher education foundations utilize FASB standards; therefore, only the June 30, 2005 balances are available as follows:

	Fair Value
Cash Held by Investment Organization	$ 10,637,932
Corporate Bonds	4,920,507
Equity Secutities	786,543,116
Government and Agency Securities	97,231,943
Long-Term Investment Pool	386,388,421
Money Market Accounts	2,675,781
Mutual Funds	51,497,858
Partnerships	249,794,000
Real Estate	169,640,017
Split-Interest Investments	14,845,294
	$ 1,774,174,869

The component unit disclosures below do not include these balances.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Primary Government (Other than Pension Trust Funds)
The State manages interest rate risk by attempting to match investments with expected cash requirements. Certificates of deposit may not have a term exceeding five years. The Director of OTFS may establish duration or maturity limitations for other investments. The following table provides information about the State's exposure to interest rate risk.

		Maturity Period				
	Total Fair Value	Less than 3 Months	4 - 12 Months	1 - 5 Years	6 - 10 Years	More than 10 Years
Commercial Paper	$ 47,691,680	$ —	$ 2,664,037	$ 37,936,833	$ 4,956,035	$ 2,134,775
Corporate Debt						
Domestic	74,764,751	3,802,449	9,859,209	42,987,111	5,201,366	12,914,616
International	5,000,000	—	—	5,000,000	—	—
Mortgage-backed Securities						
Commercial	39,327,796	—	—	—	7,063,186	32,264,610
Municipal Bonds	2,170,058	—	1,913,950	212,112	43,996	—
Mutual Funds - Debt	45,882,876	—	442,538	45,205,337	95,136	139,865
Repurchase Agreements	4,461,609,795	4,256,664,474	204,945,321	—	—	—
U. S. Agency Obligations	4,412,863,676	2,053,941,299	1,524,404,873	767,868,893	21,878,725	44,769,886
U. S. Treasury Obligations	770,134,952	27,442,089	165,238,094	558,031,828	7,752,051	11,670,890
	$ 9,859,445,584	$ 6,341,850,311	$ 1,909,468,022	$ 1,457,242,114	$ 46,990,495	$ 103,894,642
Equity Securities						
Domestic	92,945,016					
Funds on Deposit with U. S. Treasury for Unemployment Compensation	1,130,268,218					
Mutual Funds - Equity	22,338,220					
Real Estate	5,388,740					
	$ 11,110,385,778					

Note 3. Deposits and Investments (continued)

Pension Trust Funds Administered by Other than the Employees' and Teachers' Retirement Systems
The Public Retirement System Investment Authority Law does not address specific policies for managing interest rate risk.

The following table provides information about interest rate risks associated with these pension trust funds' investments:

	Total Fair Value	Maturity Period: Less than 3 Months	4 - 12 Months	1 - 5 Years	6 - 10 Years	More than 10 Years
Commercial Paper	$ 13,932,250	$ —	$ 29,102	$ 5,623,690	$ 4,391,418	$ 3,888,040
Corporate Debt						
Domestic	106,340,965	—	4,581,877	24,576,404	30,837,053	46,345,631
International	204,321	—	—	—	—	204,321
Mortgage-backed Securities						
Commercial	45,841,462	—	—	1,381,937	3,033,156	41,426,369
Municipal Bonds	873,944	—		507,089	87,268	279,587
U. S. Agency Obligations	141,959,233	—	3,004,164	20,439,456	18,955,977	99,559,636
U. S. Treasury Obligations	44,862,094	2,390,322	5,957,482	5,380,638	14,722,174	16,411,478
	$ 354,014,269	$ 2,390,322	$ 13,572,625	$ 57,909,214	$ 72,027,046	$ 208,115,062
Equity Securities						
Domestic	410,636,372					
International	11,871,508					
Mutual Funds - Equity	267,401,567					
Real Estate	1,469,723					
Short-term Investment Funds	55,965,303					
	$ 1,101,358,742					

Pension Trust Funds Administered by the Employees' and Teachers' Retirement Systems
The Boards of the Employees' and Teachers' Retirement systems have elected to manage interest rate risk of these pension trust funds using the effective duration method. This method is widely used in the management of fixed income portfolios and quantifies to a much greater degree the sensitivity to interest rate changes when analyzing a bond portfolio with call options, prepayment provision, and any other cash flows. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows and is best utilized to gauge the effect of a change in interest rates on the fair value of a portfolio. It is believed that the reporting of effective duration found in the table below quantifies to the fullest extent possible the interest rate risk of the fund's fixed income assets.

	Total Fair Value	Effective Duration (Years)
Corporate Bonds	$ 3,555,089,000	4.70
Repurchase Agreements	908,748,000	0.00
U. S. Agency Obligations	4,929,682,000	2.40
U. S. Treasury Obligations	14,359,128,000	6.20
	$ 23,752,647,000	
Common Stock	35,908,029,000	
	$ 59,660,676,000	

Note 3. Deposits and Investments (continued)

Component Units
The component units follow the applicable investing criteria described above for the primary government.

The component units' exposure to interest rate risk is presented below:

	Total Fair Value	Maturity Period: Less than 3 Months	4 - 12 Months	1 - 5 Years	6 - 10 Years	More than 10 Years
Corporate Debt	$ 29,308,912	$ —	$ 15,152,519	$ 11,205,429	$ 2,694,631	$ 256,333
Money Market Mutual Funds	12,732,388	11,271,159	—	—	—	1,461,229
Mortgage-backed Securities						
Commercial	9,879,061	903,417	—	2,032,729	1,107,996	5,834,919
Municipal Bonds	12,182,838	5,926,516	—	6,256,322	—	—
Mutual Bond Fund*	19,883,393	—	—	19,883,393	—	—
Repurchase Agreements	224,659,870	—	—	224,659,870	—	—
U. S. Agency Obligations	152,900,996	67,952,795	13,234,476	45,895,248	8,095,779	17,722,698
U. S. Treasury Obligations	281,376,129	35,055,264	39,352,001	88,304,411	78,885,842	39,778,611
	$ 742,923,587	$ 121,109,151	$ 67,738,996	$ 398,237,402	$ 90,784,248	$ 65,053,790
Equity Securities						
Domestic	47,045,816					
International	11,090,289					
Futures and Hedge Funds	769,866					
Joint Venture	1,449,069					
Mutual Funds - Equity						
Domestic	9,582,698					
International	1,428,138					
Real Estate Investment						
Trusts	6,328,010					
Venture Capital	7,559,579					
	$ 828,177,052					

* At June 30, 2005, the mutual bond fund had a weighted average maturity of 4.49 years.

Credit Quality Risk
Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Primary Government (Other than Pension Trust Funds)
The State's investment policies include the following investing restrictions to manage credit quality risk:

1) Repurchase agreements and reverse repurchase agreements may be transacted only with authorized dealers and banks of a certain size with other restrictions requiring approval of the Director of OTFS.
2) Commercial paper issued by domestic corporations carrying ratings no lower than P-1 by Moody's Investors Service and A-1 by Standard & Poor's Corporation.
3) Prime bankers acceptances must carry the highest rating assigned to such investments by a nationally recognized rating agency.
4) Obligations issued by this State or its agencies or other political subdivisions of this State, if meeting statutory requirements, may be approved for investment by the Director.
5) Obligations of domestic corporations must be rated investment grade or higher by a nationally recognized rating agency.

Note 3. Deposits and Investments (continued)

6) Direct obligations of the government of any foreign country and obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation must be rated A or higher by a nationally recognized rating agency.

7) Such other limitations as determined by the Director necessary for the preservation of principal, liquidity, or marketability of any of the State's portfolios.

The exposure of the primary government's debt securities to credit quality risk is indicated below:

	Total Fair Value	AAA	AA	A	BAA	BA	BBB	Not Rated
Commercial Paper	$ 47,691,680	$ 45,027,643	$ —	$ 591,898	$ —	$ —	$ —	$ 2,072,139
Corporate Debt								
Domestic	74,764,751	10,110,923	23,674,870	38,669,800	1,184,570	565,872	10,994	547,722
International	5,000,000	—	—	5,000,000	—	—	—	—
Mortgage-backed Securities								
Commercial	39,327,796	39,327,796	—	—	—	—	—	—
Municipal Bonds	2,170,058	2,068,844	101,214	—	—	—	—	—
Mutual Funds - Debt	45,882,876	—	—	—	—	—	—	45,882,876
Repurchase Agreements	4,036,113,090	4,030,437,507	—	—	—	—	—	5,675,583
U. S. Agency Obligations	4,401,253,217	4,326,895,991	—	—	—	—	—	74,357,226
	$ 8,652,203,468	$ 8,453,868,704	$ 23,776,084	$ 44,261,698	$ 1,184,570	$ 565,872	$ 10,994	$ 128,535,546

Pension Trust Funds

The credit quality risk of pension trust funds is managed by restricting investments to those authorized by the Public Retirement System Investment Authority Law described in Note 1. The Boards of individual funds may elect to implement more restrictive policies. The pension trust funds' debt securities exposure to credit quality risk is indicated below:

			Corporate Debt		Mortgage-Backed Securities			
Credit Rating	Total Fair Value	Commercial Paper	Domestic	International	Commercial	Municipal Bonds	Repurchase Agreements	U. S. Agency Obligations
AAA	$ 7,111,719,367	$ 11,313,549	$ 2,061,499,209	$ -	$ 14,686,620	$ 597,575	$ —	$ 5,023,622,414
AA	1,513,942,978	741,446	1,513,047,034	-	—	154,498	—	—
A	947,337,671	795,308	37,672,492	-	—	121,871	908,748,000	—
BAA	57,758,303	423,899	40,505,007	204,321	16,625,076	—	—	—
BA	2,665,688	—	2,665,688	-	—	—	—	—
BBB	503,265	—	503,265	-	—	—	—	—
B	349,624	—	349,624	-	—	—	—	—
Not Rated	50,072,078	658,048	5,187,646	-	14,529,766	—	—	29,696,618
	$ 9,684,348,974	$ 13,932,250	$ 3,661,429,965	$ 204,321	$ 45,841,462	$ 873,944	$ 908,748,000	$ 5,053,319,032

Note 3. Deposits and Investments (continued)

Component Units

The component units follow the applicable investing criteria described above for the primary government. The exposure of the component units' debt securities to credit quality risk is indicated below:

	Total Fair Value	AAA	AA	A	BBB	BB	***	Not Rated
Corporate Debt	$ 29,308,912	$ 2,474,269	$ 7,041,663	$ 8,325,499	$ 9,582,771	$ 1,884,710	$ —	$ —
Money Market Mutual Funds	12,732,388	289,248	1,461,229	—	—	—	—	10,981,911
Mortgage-backed Securities Commercial	9,879,061	8,975,643	—	—	—	—	—	903,418
Municipal Bonds	12,182,838	12,182,838	—	—	—	—	—	—
Mutual Bond Fund	19,883,393	—	—	—	—	—	—	19,883,393
Repurchase Agreements	224,659,870	224,659,870	—	—	—	—	—	—
U. S. Agency Obligations	147,534,220	87,164,581	—	—	—	—	1,564,675	58,804,964
	$ 456,180,682	$ 335,746,449	$ 8,502,892	$ 8,325,499	$ 9,582,771	$ 1,884,710	$ 1,564,675	$ 90,573,686

Custodial Credit Risk – Investments

As indicated above, custodial credit risk is the risk that, in the event of a bank failure, the State's investments may not be recovered.

Primary Government (Other than Pension Trust Funds)

The State's investment policies include the following restrictions to manage custodial credit risk for investments:

1) Repurchase agreements must be collateralized by obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government having a market value of at least 102% of the investment. Collateral must be held by a third party custodian approved by the Director of OTFS and marked-to-market daily.
2) All CD's must be secured by collateral permitted by statute. Surety bonds acceptable as security for CD's shall require approval by the State Depository Board with such credit constraints or limitations it determines. Pledged securities shall be marked-to-market at least monthly with depositories required to initially pledge to OTFS, and thereafter maintain upon notification of any shortfall, collateral having a market value equal to 110 % of CD's.

At June 30, 2005, the State's investments were held by the State or in the State's name by the State's custodial banks.

Component Units

The component units follow the applicable investing criteria described above for the primary government. At June 30, 2005, $282,314,856 of the component units' investments were uninsured, unregistered and held by the counterparty or the counterparty's trust department, but not in the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the *State's* investment in a single issuer.

Primary Government (Other than Pension Trust Funds)

The State does not have a formally adopted policy for managing concentration of credit risk. At June 30, 2005, more than 5 percent of the primary government's total investments were investments in securities of U. S. agencies not explicitly guaranteed by the U. S. government. These investments represented approximately 75.9 percent of total investments.

Pension Trust Funds

The concentration of credit risk policy of pension trust funds limits investments to no more than 5% of total net assets in any one corporation. At June 30, 2005, more than 5 percent of the pension trust fund's total investments were investments in securities of U. S. agencies not explicitly guaranteed by the U. S. government. These investments represented approximately 8.3 percent of total investments.

Component Units

The component units follow the applicable investing criteria described above for the primary government. At June 30, 2005, more than 5 percent of the component units' total investments were investments in securities of U. S. Agencies not explicitly guaranteed by the U. S. government. These investments represented approximately 44.9 percent of total investments.

Note 3. Deposits and Investments (continued)

C. Investments Lending Program

The State is presently involved in securities lending programs with major brokerage firms. The State lends equity and fixed income securities for varying terms and receives a fee based on the loaned securities' value. During a loan, the State continues to receive dividends and interest as the owner of the loaned securities.

Primary Government
In the primary government's securities lending agreement, securities are transferred to an independent broker in exchange for collateral in the form of cash and/or securities issued by the U. S. Treasury or its agencies. The collateral value must be equal to at least 100% to 102% of the loaned securities value, depending on the type of collateral security.

Securities loaned totaled $473,308,557 at June 30, 2005, and the collateral value was equal to 102%. The loaned securities are in the accompanying note disclosures based on the custodial arrangements for the collateral securities. Loaned securities are included in the accompanying Statement of Net Assets since the State maintains ownership. The related collateral securities are not recorded as assets on the Statement of Net Assets, and a corresponding liability is not recorded, since the State does not pledge or trade the collateral securities.

Pension Trust Funds
In the pension trust funds securities lending agreements, the brokerage firms pledge collateral securities consisting of U. S. Government and agency securities, mortgage-backed securities issued by a U. S. Government agency, and U. S. corporate bonds. The collateral value must be equal to at least 102% to 110% of the loaned securities value, depending on the type of collateral security.

Securities loaned totaled $22,336,971,014 at June 30, 2005, and the collateral value was equal to 105.1%. The loaned securities are in the accompanying note disclosures based on the custodial arrangements for the collateral securities. Loaned securities are included in the accompanying Statement of Net Assets since the State maintains ownership. The related collateral securities are not recorded as assets on the Statement of Net Assets, and a corresponding liability is not recorded, since the State does not pledge or trade the collateral securities.

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 3. Deposits and Investments (continued)

D. Investment Pools

Separate reports on the State's external investment pools are not issued. Condensed financial statements, inclusive of external and internal participants for the fiscal year ended June 30, 2005, and related risk disclosures for investments are as follows:

Georgia Fund 1
The Primary Liquidity portfolio is a stable net asset value investment pool that follows Standard and Poor's criteria for AAAm rated money market funds. The pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Georgia Fund 1
Statement of Net Assets
June 30, 2005

Assets		
Cash and Cash Equivalents	$	5,581,176,849
Investments		1,365,860,074
Net Assets	$	6,947,036,923
Distribution of Net Assets		
External Participant Account Balances	$	3,238,248,943
Internal Participant Account Balances		3,708,787,980
	$	6,947,036,923

Georgia Fund 1
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Additions		
Pool Participant Deposits	$	22,714,114,153
Investment Income		139,110,746
Less: Investment Expense		(1,453,341)
Total Additions	$	22,851,771,558
Deductions		
Pool Participant Withdrawals		22,196,343,595
Net Increase	$	655,427,963
Net Assets		
July 1, 2004		6,291,608,960
June 30, 2005	$	6,947,036,923

Deposits
Because the State does not maintain separate bank accounts for Georgia Fund 1, separate custodial credit risk disclosures for the Fund's deposits cannot be presented. The carrying amount of the Fund's deposits as of June 30, 2005, was $189,599,488. This amount is included in the deposit disclosures of the Primary Government.

Investments
Georgia Fund 1 follows applicable investing criteria and investment risk management policies described above for the primary government. In addition, fund managers restrict investments of the Fund in order to maintain the Standard and Poor's AAAm rating.

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 3. Deposits and Investments (continued)

D. Investment Pools

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Fund's investments are presented below:

		Total Fair Value	Maturity Period Less than 3 months	Range of Yields
Repurchase Agreements	$	3,702,261,112 $	3,702,261,112	3.00 - 3.45
U. S. Agency Obligations		3,055,176,323	3,055,176,323	2.98 - 3.33
	$	6,757,437,435 $	6,757,437,435	

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 20, 2005, all applicable investments of the Fund were rated AAA.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investment in a single issuer. At June 30, 2005, more than 5 percent of the Fund's total investments were investments in securities of U. S. agencies not explicitly guaranteed by the U. S. government. These investments represented approximately 97.2 percent of total investments.

Note 3. Deposits and Investments (continued)

D. Investment Pools

Georgia Extended Asset Pool
The Extended Term Portfolio is a variable net asset value investment pool that follows Standard and Poor's criteria for AAAf money market rated funds. The pool is not registered with the SEC as an investment company.

Georgia Extended Asset Pool
Statement of Net Assets
June 30, 2005

Assets		
Cash and Cash Equivalents	$	341,047,954
Investments		689,156,273
Net Assets	$	1,030,204,227
Distribution of Net Assets		
External Participant Account Balances	$	462,839,127
Internal Participant Account Balances		567,365,100
	$	1,030,204,227

Georgia Extended Asset Pool
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Additions		
Pool Participant Deposits	$	57,300,989
Investment Income		33,162,214
Total Additions	$	90,463,203
Deductions		
Pool Participant Withdrawals		428,650,436
Net Decrease	$	(338,187,233)
Net Assets		
July 1, 2004		1,368,391,460
June 30, 2005	$	1,030,204,227

Deposits
Because the State does not maintain separate bank accounts for Georgia Extended Asset Pool, separate custodial credit risk disclosures for the Pool's deposits cannot be presented. The carrying amount of the Pool's deposits as of June 30, 2005, was $127,073,002. This amount is included in the deposit disclosures of the Primary Government.

Investments
Georgia Extended Asset Pool follows applicable investing criteria and investment risk management policies described above for the primary government. In addition, the fund managers restrict investments of the Fund in order to maintain the Standard and Poor's AAAf rating.

Note 3. Deposits and Investments (continued)

D. Investment Pools

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Pool's investments are presented below:

	Total Fair Value	Maturity Period: Less than 3 months	Maturity Period: 4 - 12 months	Maturity Period: 1 - 5 Years	Range of Yields
Repurchase Agreements	$ 213,974,952	$ 213,974,952	$ —	$ —	3.00 - 3.45
U. S. Agency Obligations	610,037,513	99,494,563	105,549,406	404,993,544	1.63 - 4.43
U. S. Treasury Obligations	79,118,760	—	79,118,760	—	1.66 - 1.74
	$ 903,131,225	$ 313,469,515	$ 184,668,166	$ 404,993,544	

Credit Quality Risk
Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2005, the Pool's applicable repurchase agreements and U. S. Agency Obligations were rated AAA.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investment in a single issuer. At June 30, 2005, more than 5 percent of the Pool's total investments were investments in securities of U. S. agencies not explicitly guaranteed by the U. S. government. These investments represented approximately 91.2 percent of total investments.

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 3. Deposits and Investments (continued)

D. Investment Pools

Regents Investment Pool
The Regents Investment Pool is not registered with the SEC as an investment company.

Regents Investment Pool
Statement of Net Assets
June 30, 2005

Assets		
Cash and Cash Equivalents	$	10,703,991
Investments		157,445,070
Interest Receivable		161,914
Net Assets	$	168,310,975
Distribution of Net Assets		
External Participant Account Balances	$	30,345,328
Internal Participant Account Balances		137,965,647
	$	168,310,975

Regents Investment Pool
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Additions		
Investment Income		
Interest	$	4,674,812
Fair Value Decreases		(945,372)
Less: Investment Expense		(434,303)
Total Additions	$	3,295,137
Deductions		
Pool Participant Withdrawals	$	13,131,964
Capital Transactions		(13,609,344)
Total Deductions	$	(477,380)
Net Increase	$	3,772,517
Net Assets		
July 1, 2004		164,538,458
June 30, 2005	$	168,310,975

Deposits
Because the State does not maintain separate bank accounts for Regents Investment Pool, separate custodial credit risk disclosures for the Pool's deposits cannot be presented. The carrying amount of the Pool's deposits as of June 30, 2005, was $243,396. This amount is included in the deposit disclosures of the Primary Government.

Investments
The Regents Investment Pool policy guidelines indicate that all investments must be consistent with donor intent, Board of Regents policy and applicable federal and state law. The individual funds of the Pool provide various restrictions on the types of investments allowed.

Note 3. Deposits and Investments (continued)

D. Investment Pools

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Pool's Funds' policy guidelines restrict average maturities of their holdings. The Pool's investments are presented below:

	Total Fair Value	Maturity Period: Less than 1 Year	1 - 5 Years	6 - 10 Years	More than 10 Years
Municipal Obligations	$ 1,200,000	$ 1,200,000	$ —	$ —	$ —
Mutual Bond Fund	33,019,308	—	33,019,308	—	—
Repurchase Agreements	2,423,000	2,423,000	—	—	—
U. S. Agency Obligations	58,352,758	23,141,916	35,210,842	—	—
U. S. Treasury Obligations	13,309,872	—	12,386,424	253,408	670,040
	$ 108,304,938	$ 26,764,916	$ 80,616,574	$ 253,408	$ 670,040
Equity Securities					
Domestic	46,441,904				
Mutual Funds - Equity	9,908,054				
Real Estate Investment Trusts	3,412,683				
	$ 168,067,579				

Credit Quality Risk
Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Pool's Funds' policy guidelines require that holdings, except for those of the Diversified Fund be investment grade with ratings of at least BAA by Moody's and Standard & Poor's at the time of purchase. The Diversified Fund is permitted to invest in noninvestment grade debt issues up to a limit of 15% of the entire fund. The exposure of the Regents Investment Pool's debt securities to credit quality risk is indicated below:

	Total Fair Value	Credit Rating: AAA	Not Rated
Municipal Obligations	$ 1,200,000	$ 1,200,000	$ —
Mutual Bond Fund	33,019,308	—	33,019,308
Repurchase Agreements	2,423,000	2,423,000	—
U. S. Agency Obligations	58,352,758	10,607,094	47,745,664
	$ 94,995,066	$ 14,230,094	$ 80,764,972

Custodial Credit Risk – Investments
As indicated above, custodial credit risk is the risk that, in the event of a bank failure, the State's investments may not be recovered. The Regents Investment Pool's policy for managing custodial credit risk is to 1) appoint a federally regulated banking institution as custodian, 2) require that all securities transactions be settled on a delivery vs. payment basis through an approved depository institution such as the Depository Trust Company or the Federal Reserve, and 3) require that repurchase agreements be collateralized by U. S. Treasury securities at 102% of the market value of the investment at all times. At June 30, 2005, $168,067,579 of the Regents Investment Pool's holdings were uninsured and held by the custodian bank or a depository institution, but not in the State's name.

Note 3. Deposits and Investments (continued)

D. Investment Pools

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investment in a single issuer. The Regents Investment Pool's policy for managing concentration of credit risk is to diversify to the extent that any single issuer (other than U. S. government obligations) shall be limited to 5% of the market value in a particular Pool Fund. At June 30, 2005, more than 5 percent of the Pool's total investments were investments in securities of U. S. agencies not explicitly guaranteed by the U. S. government. These investments represented approximately 34.0 percent of total investments.

Note 4. Receivables

Receivables at June 30, 2005, consisted of the following:

	Gross Receivables	Allowance For Uncollectibles	Allowance For Possible Loan Losses	Allowance For Service Repayments	Deferred Loan Fees	Net Total Receivables
Governmental Activities:						
General Fund	$ 3,248,219,194	$ (29,858,647)	$ —	$ —	$ —	$ 3,218,360,547
Nonmajor Governmental	1,229,758	—	—	—	—	1,229,758
Total Governmental Funds	$ 3,249,448,952	$ (29,858,647)	$ —	$ —	$ —	$ 3,219,590,305
Internal Service Funds	9,398,903	(239,000)	—	—	—	9,159,903
Long-Term Lease Receivable	2,437,175	—	—	—	—	2,437,175
Receivables from Fiduciary Funds	1,799,000	—	—	—	—	1,799,000
Total Governmental Activities	$ 3,263,084,030	$ (30,097,647)	$ —	$ —	$ —	3,232,986,383
Business-type Activities:						
Higher Education Fund	$ 251,334,577	$ (12,465,712)	$ —	$ —	$ —	$ 238,868,865
State Employees' Health Benefit Plan	39,343,163	(4,157,556)	—	—	—	35,185,607
Unemployment Compensation Fund	175,686,303	(25,518,071)	—	—	—	150,168,232
Georgia Technology Authority	5,330,220	—	—	—	—	5,330,220
Internal Service Funds	6,286	—	—	—	—	6,286
Receivables from Fiduciary Funds	10	—	—	—	—	10
Total Business-type Activities	$ 471,700,559	$ (42,141,339)	$ —	$ —	$ —	$ 429,559,220
Component Units	$ 2,505,620,325	$ (7,967,356)	$ (2,023,753)	$ (47,399,309)	$ (225,217)	$ 2,448,004,690

Note 5. Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Retroactive Restatement of Prior Year Balances	Increases	Decreases	Balance June 30, 2005
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	$ 416,058,860	$ 1,074,650,756	$ 66,213,818	$ (6,929,654)	$ 1,549,993,780
Works of Art and Collections	6,312,608	(4,997,233)	—	—	1,315,375
Construction in Progress	2,158,111,336	338,722,958	258,158,898	(215,187,435)	2,539,805,757
Total capital assets, not being depreciated	$ 2,580,482,804	$ 1,408,376,481	$ 324,372,716	$ (222,117,089)	$ 4,091,114,912
Capital Assets Being Depreciated:					
Infrastructure	$ 16,009,878,617	$ (11,594,444)	$ 215,187,435	$ —	$ 16,213,471,608
Buildings	2,601,635,165	(92,068,141)	102,847,656	(3,917,582)	2,608,497,098
Improvements Other Than Buildings	59,625,193	6,813,881	4,521,980	—	70,961,054
Machinery and Equipment	703,599,776	1,085,019	64,291,107	(59,523,326)	709,452,576
Software	67,604,488	(6,182,085)	21,363,891	—	82,786,294
Library Collections	3,200,000	—	—	—	3,200,000
Works of Art and Collections	—	620,019	—	—	620,019
Total Capital Assets Being Depreciated	$ 19,445,543,239	$ (101,325,751)	$ 408,212,069	$ (63,440,908)	$ 19,688,988,649
Less Accumulated Depreciation For:					
Infrastructure	$ (5,878,457,236)	$ —	$ (909,526,986)	$ —	$ (6,787,984,222)
Buildings	(802,093,155)	(35,407,159)	(115,601,322)	32,680,168	(920,421,468)
Improvements Other Than Buildings	(24,707,632)	(2,637,351)	(2,688,490)	—	(30,033,473)
Machinery and Equipment	(456,247,392)	(710,508)	(48,506,762)	42,454,860	(463,009,802)
Software	(47,667,682)	5,230,995	(10,292,651)	—	(52,729,338)
Library Collections	(3,200,000)	—	—	—	(3,200,000)
Works of Art and Collections	—	(62,000)	(20,667)	—	(82,667)
Total Accumulated Depreciation	$ (7,212,373,097)	$ (33,586,023)	$ (1,086,636,878)	$ 75,135,028	$ (8,257,460,970)
Total Capital Assets Being Depreciated, Net	$ 12,233,170,142	$ (134,911,774)	$ (678,424,809)	$ 11,694,120	$ 11,431,527,679
Governmental activities capital assets, net	$ 14,813,652,946	$ 1,273,464,707	$ (354,052,093)	$ (210,422,969)	$ 15,522,642,591

Note 5. Capital Assets (continued)

Primary Government (continued)

	Balance July 1, 2004	Retroactive Restatement of Prior Year Balances	Increases	Decreases	Balance June 30, 2005
Business-type Activities:					
Capital Assets Not Being Depreciated:					
Land	$ 162,155,934	$ 3,067,442	$ 28,863,435	$ (365,000)	$ 193,721,811
Works of Art and Collections	15,728,854	(75,006)	567,880	—	16,221,728
Construction in Progress	180,891,211	—	99,640,642	(140,808,628)	139,723,225
Total capital assets, not being depreciated	$ 358,775,999	$ 2,992,436	$ 129,071,957	$ (141,173,628)	$ 349,666,764
Capital Assets Being Depreciated:					
Infrastructure	$ 130,700,231	$ 108,046,394	$ 14,595,636	$ (1,276,421)	$ 252,065,840
Buildings	4,277,996,292	(70,517,670)	613,087,111	(35,188,579)	4,785,377,154
Improvements Other Than Buildings	240,675,083	5,457,441	16,678,995	(1,885,398)	260,926,121
Machinery and Equipment	1,254,064,991	6,933,009	167,893,979	(70,295,578)	1,358,596,401
Software	39,328,938	—	2,600,697	—	41,929,635
Library Collections	556,922,308	(11,214,358)	33,019,741	(2,438,491)	576,289,200
Works of Art and Collections	1,351,505	75,006	41,513	(10,750)	1,457,274
Total Capital Assets Being Depreciated	$ 6,501,039,348	$ 38,779,822	$ 847,917,672	$ (111,095,217)	$ 7,276,641,625
Less Accumulated Depreciation For:					
Infrastructure	$ (45,160,732)	$ (556,585)	$ (3,766,844)	$ 1,151,424	$ (48,332,737)
Buildings	(1,204,409,262)	(7,661,737)	(111,725,718)	14,093,308	(1,309,703,409)
Improvements Other Than Buildings	(91,720,576)	(218,285)	(7,938,857)	1,391,754	(98,485,964)
Machinery and Equipment	(744,895,369)	(2,099,302)	(112,159,412)	54,091,899	(805,062,184)
Software	(33,063,632)	—	(2,798,605)	—	(35,862,237)
Library Collections	(408,593,598)	(565,911)	(26,743,558)	2,296,332	(433,606,735)
Works of Art and Collections	(631,085)	27,945	(28,541)	922	(630,759)
Total Accumulated Depreciation	$ (2,528,474,254)	$ (11,073,875)	$ (265,161,535)	$ 73,025,639	$ (2,731,684,025)
Total Capital Assets Being Depreciated, Net	$ 3,972,565,094	$ 27,705,947	$ 582,756,137	$ (38,069,578)	$ 4,544,957,600
Business-type activities capital assets, net	$ 4,331,341,093	$ 30,698,383	$ 711,828,094	$ (179,243,206)	$ 4,894,624,364

Note 5. Capital Assets (continued)

Primary Government (continued)

Current period depreciation expense was charged to functions of the primary government as follows:

General government	$	8,019,482
Education		16,941,007
Health and Welfare		15,955,273
Transportation		924,724,883
Public Safety		81,293,726
Economic Development		17,084,064
Culture and Recreation		6,490,468
Conservation		3,751,349
Internal Service Funds (Depreciation on capital assets held by the state's internal service funds are charged to the various functions based on their usage of the assets)		12,376,626
Depreciation Expense - Governmental Activities	$	1,086,636,878

Component Units

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Retroactive Restatement of Prior Year Balances	Increases	Decreases	Balance June 30, 2005
Capital Assets Not Being Depreciated:					
Land	$ 214,956,123	$ 24,166,974	$ 7,383,619	$ (585,200)	$ 245,921,516
Works of Art and Collections	201,048	—	—	—	201,048
Construction in Progress	84,488,222	(17,032,469)	38,891,482	(18,673,349)	87,673,886
Total Capital Assets, Not Being Depreciated	$ 299,645,393	$ 7,134,505	$ 46,275,101	$ (19,258,549)	$ 333,796,450
Capital Assets Being Deprecated:					
Infrastructure	$ 153,963,387	$ —	$ 309,000	$ —	$ 154,272,387
Buildings	843,599,462	64,588,683	15,214,330	(150,787)	923,251,688
Improvements Other Than Buildings	230,420,912	11,292,846	6,771,395	(405,385)	248,079,768
Machinery and Equipment	462,272,694	993,861	35,358,276	(10,630,796)	487,994,035
Software	1,072,714	—	49,715	—	1,122,429
Total Capital Assets Being Depreciated	$ 1,691,329,169	$ 76,875,390	$ 57,702,716	$ (11,186,968)	$ 1,814,720,307
Less Accumulated Depreciation For:					
Infrastructure	$ (65,478,890)	$ —	$ (3,603,822)	$ —	$ (69,082,712)
Buildings	(224,467,984)	(31,032,536)	(25,354,862)	113,854	(280,741,528)
Improvements Other Than Buildings	(87,881,921)	(19,366)	(8,035,518)	264,000	(95,672,805)
Machinery and Equipment	(310,493,721)	3,568,932	(40,944,307)	9,308,181	(338,560,915)
Software	—	—	(57,119)	—	(57,119)
Total Accumulated Depreciation	$ (688,322,516)	$ (27,482,970)	$ (77,995,628)	$ 9,686,035	$ (784,115,079)
Capital Assets, Net (GASB presentation)	$ 1,302,652,046	$ 56,526,925	$ 25,982,189	$ (20,759,482)	$ 1,364,401,678

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 5. Capital Assets (continued)

Component Units (continued)

Certain higher education foundations and other similar organizations utilize FASB standards; therefore, only the June 30, 2005, balances are available as follows:

Capital Assets Not Being Depreciated:		
Land	$	26,193,139
Construction in Progress		89,664,768
Total Capital Assets, Not Being Depreciated	$	115,857,907
Capital Assets Being Depreciated:		
Buildings	$	355,636,780
Machinery and Equipment		19,108,481
Total Capital Assets Being Depreciated	$	374,745,261
Less: Accumulated Depreciation	$	(28,109,029)
Capital Assets, Net (FASB presentation)	$	462,494,139
Total Capital Assets, Net - All Component Units	$	1,826,895,817

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 6. Risk Management

A. Public Entity Risk Pool

The Department of Community Health administers the State's Health Benefit Plan for the State. Participants include State agencies, component units, participating county governments and local educational agencies. This plan is funded by participating employer and employee contributions and appropriations from the Georgia General Assembly. The Department of Community Health has contracted with Blue Cross Blue Shield of Georgia as the claims processing agent for the State Employees' Health Benefit Plan.

A reconciliation of total claims liabilities for fiscal years ended June 30, 2005, and 2004, is shown below:

	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004
Unpaid Claims and Claim Adjustments July 1	$ 166,044,491	$ 173,783,922
Incurred Claims and Claims Adjustment Expenses - Provisions for Insured Events of the Current Year	1,487,907,145	1,330,155,729
Payments - Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year and of Prior Years	(1,478,374,396)	(1,337,895,160)
Unpaid Claims and Claim Adjustments June 30	$ 175,577,240	$ 166,044,491

B. Board of Regents Employee Health Benefits Plan

The Board of Regents of the University System of Georgia maintains a program of health benefits for its employees and retirees. This plan is funded jointly through premiums paid by participants covered under the plan and employer contributions paid by the Board of Regents and its organizational units. All units of the University System of Georgia share the risk of loss for claims of the plan.

The Board of Regents has contracted with Blue Cross Blue Shield to process all claims in accordance with medical coverage guidelines as established by the Board of Regents.

A reconciliation of total claims liabilities for fiscal years ended June 30, 2005, and 2004, is shown below:

	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004
Unpaid Claims and Claim Adjustments July 1	$ 26,506,140	$ 20,556,348
Incurred Claims and Claims Adjustment Expenses - Provisions for Insured Events of the Current Year	226,706,590	221,832,435
Payments - Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year and of Prior Years	(225,629,676)	(215,882,643)
Unpaid Claims and Claim Adjustments June 30	$ 27,583,054	$ 26,506,140

Note 6. Risk Management (continued)

C. Other Risk Management

The Department of Administrative Services (DOAS) has the responsibility for the State of Georgia of making and carrying out decisions that will minimize the adverse effects of accidental losses that involve State government assets. The State believes it is more economical to manage its risks internally and set aside assets for claim settlement. Accordingly, DOAS services claims for risk of loss to which the State is exposed, including general liability, property and casualty, workers' compensation, unemployment compensation, and law enforcement officers' indemnification. Limited amounts of commercial insurance are purchased applicable to property, employee and automobile liability, fidelity and certain other risks. Premiums for the risk management program are charged to the State agencies by DOAS to provide claims servicing and claims payment.

A reconciliation of total claims liabilities for fiscal years ended June 30, 2005, and 2004, is shown below:

	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004
Unpaid Claims and Claim Adjustments July 1	$ 381,993,897	$ 356,918,338
Incurred Claims and Claims Adjustment Expenses - Provisions for Insured Events of the Current Year	118,760,009	131,539,668
Payments - Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year and of Prior Years	(112,364,601)	(106,464,109)
Unpaid Claims and Claim Adjustments June 30	$ 388,389,305	$ 381,993,897

Note 7. Construction and Other Significant Commitments

Primary Government

The Georgia State Financing and Investment Commission has entered into agreements with various State departments and agencies for the expenditure of bond sale proceeds and cash supplements (provided by the department or agency involved) to acquire and construct capital projects. At June 30, 2005, the undisbursed balance remaining on these agreements was $808,260,326.

At June 30, 2005, the Department of Transportation had contractual commitments of $2,871,185,561 for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants, motor fuel tax funds and general obligation bond proceeds.

Note 8. Operating Leases

A. Lessee

The State leases land, office facilities, office and computer equipment, and other assets. These leases are considered for accounting purposes to be operating leases. Although lease terms vary, many leases are subject to appropriation from the General Assembly to continue the obligation. Other leases generally contain provisions that, at the expiration date of the original term of the lease, the State has the option of renewing the lease on a year-to-year basis. Certain governmental organizations within the State's reporting entity do not maintain adequate systems for recording lease commitments in accordance with GAAP.

Total lease payments for the State's governmental activities, business-type activities, and component units were $90,609,707, $27,119,148, and $5,745,535, respectively, for the year ended June 30, 2005. Future minimum commitments for operating leases as of June 30, 2005, are listed below. Amounts are included for renewable leases for which the option to renew for the subsequent fiscal year has been exercised.

Note 8. Operating Leases (continued)

Fiscal Year Ended June 30	Governmental Activities	Business-Type Activities	Component Units
2006	$ 73,882,773	$ 31,331,337	$ 5,066,500
2007	45,614,435	14,124,808	4,328,772
2008	42,035,487	11,532,354	3,592,869
2009	38,467,596	9,963,600	2,740,014
2010	35,185,484	8,372,036	2,366,206
2011-2015	120,590,226	23,284,482	9,164,940
2016-2020	39,059,927	14,600,993	—
2021-2025	20,603,851	15,445,294	—
2026-2030	41,940	14,829,996	—
2031-2035	41,940	—	—
2036-2040	41,940	—	—
2041-2045	41,940	—	—
2046-2050	41,940	—	—
2051-2055	41,940	—	—
2056-2060	41,940	—	—
2061-2065	21,275	—	—
	$ 415,754,634	$ 143,484,900	$ 27,259,301
Less: Sublease Revenues	—	—	(2,210,000)
Total Minimum Commitments	$ 415,754,634	$ 143,484,900	$ 25,049,301

Note 8. Operating Leases (continued)

B. Lessor

The State leases certain of its facilities for use by others for terms varying from 1 to 65 years, with the majority of leases controlled by the State Properties Commission. These leases are accounted for as operating leases; revenues for services provided and for use of facilities are recorded when earned. Total revenues from rental of facilities for the State's governmental activities and component units were $7,693,459, and $13,140,896, respectively for the year ended June 30, 2005. Minimum future revenues and rentals to be received under operating leases as of June 30, 2005, are as follows:

Fiscal Year Ended June 30	Governmental Activities	Component Units
2006	$ 8,219,711	$ 12,780,168
2007	8,353,525	12,001,436
2008	8,165,322	10,165,549
2009	8,041,789	8,299,246
2010	8,012,751	7,756,783
2011-2015	41,470,355	33,702,169
2016-2020	40,457,051	25,929,291
2021-2025	7,185,261	18,404,041
2026-2030	7,533,327	14,764,974
2031-2035	7,361,692	15,355,542
2036-2040	8,231,257	15,876,170
2041-2045	7,871,430	16,987,502
2046-2050	3,065,933	14,541,302
2051-2055	3,120,000	—
2056-2060	3,220,000	—
2061-2065	3,320,000	—
2066-2070	3,420,000	—
2071-2075	696,000	—
Total Minimum Commitments	$ 177,745,404	$ 206,564,173

Note 9. Capital Leases

The State acquires certain property and equipment through multi-year capital leases with varying terms and options. The majority of these agreements contain fiscal funding clauses in accordance with OCGA 50-5-64 which prohibits the creation of a debt to the State of Georgia for the payment of any sums under such agreements beyond the fiscal year of execution if appropriated funds are not available. If renewal of such agreements is reasonably assured, however, capital leases requiring appropriation by the General Assembly are considered noncancellable for financial reporting purposes.

As noted in the Summary of Significant Accounting Policies (Note 1F), capital lease transactions of governmental activities have not been consistently recorded in conformity with GAAP. Capital assets in prior years have not been recorded at the net present value of the minimum payments nor has the long-term liability applicable to capital leases been consistently recorded. Also, the State does not consistently record expenditures and other financing sources in the governmental funds when capitalized leases are entered into as required by GAAP. At June 30, 2005, future commitments under capital leases were as follows:

Fiscal Year Ended June 30	Governmental Activities	Business-Type Activities	Component Units
2006	$ 1,273,554	$ 57,030,070	$ 2,619,600
2007	1,075,198	56,261,049	2,491,312
2008	927,856	55,605,531	1,978,852
2009	560,222	54,949,057	1,802,923
2010	398,192	53,293,066	1,509,048
2011-2015	1,127,705	259,486,462	6,052,541
2016-2020	—	266,515,297	2,988,225
2021-2025	—	238,233,909	—
2026-2030	—	176,126,598	—
2031-2035	—	60,217,090	—
Total Capital Lease Payments	$ 5,362,727	$ 1,277,718,129	$ 19,442,501
Less: Interest and Executory Costs	(240,408)	(599,662,907)	(4,513,998)
Present Value of Capital Lease Payments	$ 5,122,319	$ 678,055,222	$ 14,928,503

Note 10. Long-Term Liabilities

Primary Government

Changes in long-term liabilities for the fiscal year ended June 30, 2005, is shown in the table below:

	Balance July 1, 2004	Retroactive Restatement of Prior Year Balance	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
Governmental activities:						
Compensated Absences Payable	$ 247,078,010	$ —	$ 130,350,184	$ (123,459,093)	$ 253,969,101	$ 101,883,228
Capital Lease Obligations	4,892,313	449,554	1,643,968	(1,863,516)	5,122,319	1,113,679
Contracts Payable	27,498,257	—	—	(13,628,972)	13,869,285	13,869,285
Notes and Loans Payable	2,505,615	1,769,019	—	(691,975)	3,582,659	422,672
General State Bond Debt	15,505	—	—	(15,505)	—	—
General Obligation Bonds Payable	6,513,380,000	—	665,480,000	(994,995,000)	6,183,865,000	539,070,000
Net Unamortized Premiums	—	70,613,604	66,772,146	(5,830,847)	131,554,903	—
Deferred Amount on Refunding	—	(28,941,817)	(52,646,674)	5,102,663	(76,485,828)	—
Other	15,942,351	—	—	(6,286,513)	9,655,838	—
Total Governmental activities	$ 6,811,312,051	$ 43,890,360	811,599,624	$ (1,141,668,758)	$ 6,525,133,277	$ 656,358,864
Business-type activities:						
Compensated Absences Payable	$ 155,387,143	$ —	$ 119,572,126	$ (110,791,984)	$ 164,167,285	$ 94,600,780
Capital Lease Obligations	479,272,219	—	223,780,216	(24,997,213)	678,055,222	19,079,644
Notes and Loans Payable	2,512,357	—	2,505,615	(774,106)	4,243,866	569,843
Total Business-type activities	$ 637,171,719	$ —	345,857,957	$ (136,563,303)	$ 846,466,373	$ 114,250,267

The governmental funds in which the leases are recorded will liquidate the capital lease obligations for governmental activities. The compensated absences liabilities will be liquidated by the applicable funds that account for the salaries and wages of the related employees.

The State issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds have been issued for both general State and proprietary activities, to provide loans to local governments for water and sewer systems, to construct educational facilities for local school systems, and to refund general obligation bonds. As of June 30, 2005, the State had $1,848,484,500 of authorized but unissued general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the State. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
General Government	1.75% - 7.45%	$ 5,497,715,000
General Government - Refunding	4.75% - 6.30%	686,150,000
Total General Obligation Bonds Outstanding		$ 6,183,865,000

Note 10. Long-Term Liabilities (continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year	Principal	Interest	Total
2006	$ 539,070,000	$ 321,744,632	$ 860,814,632
2007	545,960,000	292,478,256	838,438,256
2008	477,615,000	262,678,757	740,293,757
2009	473,490,000	235,285,300	708,775,300
2010	488,715,000	207,578,319	696,293,319
2011-2015	1,997,280,000	661,105,455	2,658,385,455
2016-2020	1,258,445,000	233,681,918	1,492,126,918
2021-2025	403,290,000	27,785,257	431,075,257
Total General Obligation Bonds	$ 6,183,865,000	$ 2,242,337,894	$ 8,426,202,894

During fiscal year 2005, the State issued $458,605,000 General Obligation Refunding Bonds Series 2004C to advance refund $184,965,000 Series 1999D, $61,210,000 Series 2000A, $107,550,000 Series 2000D, and $112,945,000 Series 2002B General Obligation Bonds. The principal amount of the refunding bonds and $61,956,825 of original issue premium, less $1,245,151 in bond issuance cost were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $52,646,674. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through fiscal year 2020 using the straight-line method, which approximates the effective interest method. The refunding reduced the State's aggregate debt service payments by $28,634,026 over 15 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $20,384,690. At June 30, 2005, the total amount outstanding of defeased general obligation bonds was $458,665,000.

Component Units

Changes in long-term liabilities for the year ended June 30, 2005, was as follows:

	Balance Balance July 1, 2004	Retroacitive Restatement of Prior Year Balance	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
Compensated Absences Payable	$ 18,802,896	$ (1,525)	$ 4,949,016	$ (4,244,090)	$ 19,506,297	$ 11,521,521
Capital Lease Obligations	29,948,655	(15,336,983)	2,604,466	(2,287,635)	14,928,503	1,817,060
Notes and Loans Payable	142,291,207	(8,777,209)	95,689,248	(108,635,208)	120,568,038	64,223,828
Prizes Payable	204,960,000	—	11,500,000	(11,196,000)	205,264,000	12,323,000
Revenue/Mortgage Bonds Payable	2,830,658,749	(40,052,640)	301,318,288	(357,762,709)	2,734,161,688	113,640,164
Other	143,255,157	(78,174,614)	3,738,970	(6,187,957)	62,631,556	3,718,822
Total Component Units	$ 3,369,916,664	$ (142,342,971)	$ 419,799,988	$ (490,313,599)	$ 3,157,060,082	$ 207,244,395

Note 10. Long-Term Liabilities (continued)

Notes and loans payable at June 30, 2005 included a one-time special short-term borrowing of $40,000,000 entered into by Medical College of Georgia Health, Incorporated, during the last week of the fiscal year. The interest rate on this note was the LIBOR Market Index Rate plus 1.0%. The proceeds from this short-term borrowing were used for an intergovernmental transfer to Regents related to the Company's participation in certain Medicaid reimbursement programs. The outstanding principal plus accrued interest on this loan was repaid in full on July 1, 2005.

The Georgia Development Authority reported three long-term notes payable to banks with a combined outstanding balance at June 30, 2005, of $34,043,204. One note, secured by LIBOR mortgage loans financed through the note, is payable in semi-annual payments of $384,615 that includes interest at LIBOR plus one percent, and has an outstanding balance at June 30, 2005, of $5,000,000. Another note, secured by various fixed rate mortgage loans financed through the note, bears interest at a rate of 6.8% per annum, and has an outstanding balance at June 30, 2005, of $22,343,204. The final note, secured by LIBOR mortgage loans financed through the note, is payable in semi-annual payments at a rate of LIBOR plus 1.35 percent, and has an outstanding balance at June 30, 2005, of $6,700,000.

Revenue/mortgage bonds outstanding at June 30, 2005, consisted primarily of: mortgage bonds issued by the Georgia Housing and Finance Authority for financing the purchase of single family mortgage loans for eligible persons and families of low and moderate income within the State of Georgia; revenue bonds issued by the State Road and Tollway Authority for the financing of certain construction projects within the State's highway system; and revenue bonds issued by various University System of Georgia foundations totaling $1,186,823,582 to fund acquisitions and improvements of properties and facilities. The significant revenue and mortgage bonds outstanding at June 30, 2005, consist of the following:

	Georgia Housing and Finance Authority	State Road and Tollway Authority
Interest Rates	1.100% - 11.25%	2.25% - 5.375%
Bonds Outstanding	$ 610,650,688	$ 669,125,000
Unamortized Premium	38,995	29,396,429
Deferred Amount on Refunding	—	(2,282,963)
Net Bonds Outstanding	$ 610,689,683	$ 696,238,466

Annual debt service requirements to maturity for revenue/mortgage bonds are as follows:

	Georgia Housing and Finance Authority			State Road and Tollway Authority		
Year	Principal	Interest	Total	Principal	Interest	Total
2006	$ 20,948,000	$ 29,803,000	$ 50,751,000	$ 29,790,000	$ 33,131,689	$ 62,921,689
2007	21,907,000	28,899,000	50,806,000	31,085,000	31,844,088	62,929,088
2008	21,853,000	27,962,000	49,815,000	32,520,000	30,378,711	62,898,711
2009	22,673,000	26,995,000	49,668,000	34,030,000	28,889,074	62,919,074
2010	23,891,000	25,965,000	49,856,000	35,660,000	27,224,429	62,884,429
2011-2015	121,077,000	113,007,000	234,084,000	179,415,000	108,341,643	287,756,643
2016-2020	121,690,000	83,895,000	205,585,000	209,945,000	60,056,778	270,001,778
2021-2025	118,335,000	53,918,000	172,253,000	116,680,000	10,535,375	127,215,375
2026-2030	96,150,000	25,299,000	121,449,000	—	—	—
2031-2035	45,785,000	4,317,000	50,102,000	—	—	—
Future Accretion - Capital Appreciation Bonds	(3,659,000)	3,659,000	—	—	—	—
Total Revenue/Mortgage Bonds	$ 610,650,000	$ 423,719,000	$ 1,034,369,000	$ 669,125,000	$ 330,401,787	$ 999,526,787

Various series of bonds under Resolution 1 and 3 at Georgia Housing and Finance Authority include capital appreciation bonds that require no payments of principal or interest until maturity. Capital appreciation bonds accrete to their maturity values at effective yields ranging from 7.10% to 11.25%.

Note 11. Interfund Balances

Due To/From Other Funds at June 30, 2005, consist of the following:

	Due To: General Fund	Nonmajor Enterprise Fund	Internal Service Funds	Total Due To
Due From:				
General Fund	$ —	$ 8,610,970	$ —	$ 8,610,970
Georgia State Financing and Investment Commission	13,772,619	—	—	13,772,619
Higher Education Fund	—	1,002,152	—	1,002,152
Internal Service Fund	—	207,273	—	207,273
Fiduciary Funds	—	10	1,799,000	1,799,010
Total Due From	$ 13,772,619	$ 9,820,405	$ 1,799,000	$ 25,392,024

Interfund receivables and payables result from billings for goods/services provided between funds. All interfund receivables and payables are considered short term in nature.

Interfund transfers at June 30, 2005, consist of the following:

	Transfers Out: Governmental Funds		Enterprise Funds			
	General Fund	Georgia State Financing and Investment Commission	Higher Education Fund	Nonmajor Enterprise Fund	Internal Service Funds	Total Transfers In
Transfers In:						
General Fund	$ —	$ 156,605,332	$ 2,251,048	$ 11,865,100	$ 1,322,844	$ 172,044,324
Nonmajor Governmental Funds	816,478,149	34,757,021	—	—	—	851,235,170
Higher Education Fund	1,973,369,533	—	—	3,858,000	—	1,977,227,533
State Health Benefit Plan	33,956,708	—	—	—	—	33,956,708
Nonmajor Enterprise Fund	—	—	—	—	18,574,112	18,574,112
Internal Service Funds	31,860,085	—	—	—	—	31,860,085
Fiduciary Funds	3,417,505	—	—	—	—	3,417,505
Total Transfers Out	$ 2,859,081,980	$ 191,362,353	$ 2,251,048	$ 15,723,100	$ 19,896,956	$ 3,088,315,437

Transfers are used to move revenues from the fund that statutes require to collect them to the fund that statutes require to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 12. Nonmonetary Transactions

Primary Government

The Georgia Department of Administrative Services operates the Donation of Federal Surplus Personal Property program for the purpose of distributing surplus properties made available by the General Services Administration to eligible institutions, organizations and agencies. The value of surplus property received and distributed is not reported as revenues and expenses on the combined statement of revenues, expenditures and changes in fund balances, and the inventory on hand at June 30, 2005, is not reported on the combined balance sheet. The changes in Federal surplus personal property inventory during the fiscal year ended June 30, 2005, were as follows:

Balance July 1, 2004	$	9,342,448
Additions		
Property Received		12,286,538
	$	21,628,986
Deductions		
Property Donated and Other Distributions		9,595,643
Balance June 30, 2005	$	12,033,343

Note 13. Contingencies

A. Grants and Contracts

Amounts received or receivable from grantor agencies are subject to audit and review by grantor agencies, principally the Federal government. This could result in a request for reimbursement by the grantor agency for any expenditures which are disallowed under grant terms. The State believes that such disallowances, if any, will be immaterial to its overall financial position.

B. Litigation

The State is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. The ultimate disposition of these proceedings is not presently determinable. However, the ultimate disposition of these proceedings would not have a material adverse effect on the financial condition of the State, with the following exceptions:

Primary Government

A refund lawsuit has been filed against the Department of Revenue attributable to investment tax credits ("ITCs"). These credits arose under OCGA 48-7-40.2, -40.3, -40.4 as a result of various projects undertaken by AT&T Communications and its parent, AT&T Corp., in constructing or expanding telecommunication facilities in Georgia. The Department of Revenue determined that a portion of the refund was statute-barred at the time the company's amended Georgia return claiming the refund was filed. The Department also determined that AT&T Communications was not entitled to the ITC's that AT&T Corp. attempted to assign to the taxpayer on the parent's amended return, pursuant to OCGA 48-7-42. Should the plaintiff prevail in full, the amount of refund is estimated to be $7.3 million plus interest. The case is in the initial discovery stage. The Department believes that it has good and valid defenses and intends to defend the case vigorously.

A suit has been filed against the Department of Human Resources by a custodial parent receiving child support enforcement services from the Department of Human Resources' Office of Child Support Enforcement ("OCSE"). The plaintiff has filed an action seeking class certification on behalf of all custodial parents who have ever received services from OCSE, alleging contractual and tort-based claims for damages based on OCSE's alleged failure to collect statutory interest charges that may have accrued on the plaintiff's child support judgment. If the plaintiff were to succeed in obtaining class certification and to prevail on her claims, the State's estimated potential liability could be $400,000,000 or greater. OCSE contends that it has good and adequate defenses against the plaintiff's claim and intends to defend the suit on its merits vigorously and to oppose vigorously the granting of class certification.

A suit has also been filed against the Department of Human Resources by nine foster children in the custody of the Department of Human Resources ("DHR"), on behalf of a class of foster children in Fulton and DeKalb Counties, alleging systemic failures and deficiencies in the foster care program. The parties have entered into a consent decree in which State defendants have agreed to undertake a series of improvements in the system and that the plaintiffs are prevailing parties entitled to an award of reasonable attorney's fees and expenses. The issue of what is a reasonable amount of attorneys' fees and expenses of litigation is now being litigated. On December 9, 2005, the plaintiffs filed a motion with the court seeking a total of $14,342,860 in attorneys' fees and an additional $1,679,115 in nontaxable costs. The State defendants will be contesting these amounts. The actual amount to be awarded by the court is uncertain at this time.

Note 13. Contingencies (continued)

A civil action has been filed against the Teachers' Retirement System seeking additional benefits retroactive to the time of each individual plaintiffs' respective retirement dates for a class of those retirees who elected survivorship options and who retired between 1983 and February 1, 2003 in the retirement plan administered by the Teachers' Retirement System of Georgia ("TRS"). Plaintiffs allege that they are due such additional benefits for monies lost due to TRS' allegedly inappropriate use of option factors and the mortality tables implicit in them to calculate retirees' monthly benefits. Cross motions for summary judgment were pending, after a hearing held on May 4, 2005. The motion for summary judgment of TRS and its Trustees was granted and the Order so granting is currently being prepared by counsel. Plaintiffs have indicated that their appeal will be filed immediately after entry of the Order.

A suit has been filed against the Georgia State Financing and Investment Commission (GSFIC) involving a third-party action by the joint venture construction manager for the Georgia World Congress Center Phase IV expansion project based upon indemnity from a number of subcontractors' claims and the construction manager's own delay and disruption claims, all based upon a number of different construction situations. The subcontractors' claims of approximately $50,000,000 were submitted to arbitration, with a ruling issued on April 21, 2005, denying the vast majority of claims and awarding approximately $5,000,000 to the subcontractors. Only two subcontractors have indicated that they may appeal the award. The Court required each party to file its specific affirmative claims, cross claims and counter claims and all parties have filed their respective claim documents. GSFIC has filed its Amended Answer and Counterclaim, and the construction manager has filed claims for GSFIC to pay the arbitration awards against it and its own direct claims, totaling approximately $20,000,000 over the contract price. GSFIC has counterclaims of $19,000,000, and has withheld retainage of $8,000,000 as a set-off to fund the GSFIC claims. GSFIC believes it has good and valid defenses to many if not all of the asserted claims and intends to defend its position and, further, to pursue its counterclaims vigorously.

C. Guaranteed Loans

Component Units

The Federal Government, through the Guaranteed Student Loan Programs of the U. S. Department of Education, fully reinsured loans guaranteed through September 30, 1993, until the State's rate of annual losses (defaults) exceeded five percent (5%). In the event of future adverse loss experience, the State could be liable for up to (1) twenty percent (20%) of the outstanding balance of loans in repayment status at the beginning of each year which were disbursed prior to October 1, 1993, and (2) twenty-two percent (22%) of the outstanding balance of loans in repayment status at the beginning of each year which were disbursed on or after October 1, 1993.

Note 14. Subsequent Events

Primary Government

General Obligation Bonds Issued

The State issued General Obligation Bonds in the amount of $506,760,000 on September 1, 2005 (Series 2005A) and in the amount of $96,355,000 on November 1, 2005 (Series 2005C). The State issued Taxable General Obligation Bonds in the amount of $7,600,000 on November 1, 2005 (Series 2005D). Proceeds of the bonds will be used to finance various capital acquisitions.

General Obligation Refunding Bonds Issued

On September 1, 2005, the State issued $425,000,000 of General Obligation Refunding Bonds (Series 2005B). Proceeds of the bonds will be used to advance refund certain outstanding general obligation bonds.

Note 15. Retirement Systems

The State's significant retirement systems are described below:

Employees' Retirement System of Georgia

Plan Description

Employees' Retirement System of Georgia ("ERS") is a single-employer, defined benefit pension plan established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees and has the powers and privileges of a corporation. ERS issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained at the ERS offices.

On November 20, 1997, the Board created the Supplemental Retirement Benefit Plan ("SRBP") of ERS. SRBP was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code ("IRC") as a portion of ERS. The purpose of the SRBP is to provide retirement benefits to employees

Note 15. Retirement Systems (continued)

covered by ERS whose benefits are otherwise limited by IRC Section 415. Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in the SRBP whenever their benefits under ERS exceed the limitation on benefits imposed by IRC Section 415.

Benefits
The benefit structure of ERS was significantly modified on July 1, 1982. Unless the employee elects otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. All other members are "new plan" members subject to the modified plan provisions.

Under both the old and new plans, a member may retire and receive normal retirement benefits after completion of ten (10) years of creditable service and attainment of age sixty-five (65). Additionally, there are some provisions allowing for retirement after twenty-five (25) years of creditable service regardless of age.

Retirement benefits paid to members are based upon the monthly average of the member's highest twenty-four (24) consecutive calendar months, multiplied by the number of years of creditable service, multiplied by the applicable benefit factor. Post-retirement cost-of-living adjustments are also made to members' benefits. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Summary of Significant Accounting Policies
The financial statements are prepared on the accrual basis of accounting. Contributions from the employer and members are recognized as additions in the period in which the members provide services. Benefit and refund payments are recognized as deductions when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. No investment in any one organization except the U. S. Government represents five percent (5%) or more of the net assets available for pension benefits.

Funding Policy
Member contributions under the old plan are four percent (4%) of annual compensation up to $4,200 plus six percent (6%) of annual compensation in excess of $4,200. Under the old plan, the State pays member contributions in excess of one and one-quarter percent (1.25%) of annual compensation. Under the old plan, these State contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan are one and one-quarter percent (1.25%) of annual compensation. The State is required to contribute at a specified percentage of active member payroll determined annually by actuarial valuation.

Annual Pension Cost
The required contribution for 2005 was determined as part of the June 30, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) seven and one-quarter percent (7.25%) investment rate of return, (b) projected salary increases of five and forty-five one-hundredths percent (5.45%) to nine and one-quarter percent (9.25%) per year, and (c) an inflation rate of three and three-quarters percent (3.75%) per year.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. ERS' actuarial funding excess is being amortized as a level percentage of projected payroll on an open basis. The employer contributions are projected to liquidate the actuarial accrued funding liability within twelve (12) years based upon the actuarial valuation at June 30, 2004, on the assumption that the total payroll of active members will increase by three and three-quarters percent (3.75%) each year.

Three-Year Trend Information for ERS (in thousands):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	233,229	100%	0
2003	246,172	100%	0
2004	245,388	100%	0

Note 15. Retirement Systems (continued)

Regents Retirement Plan

Plan Description
The Regents Retirement Plan, a single-employer defined contribution plan, is an optional retirement plan established and administered by the Board of Regents of the University System of Georgia (Proprietary Fund – Higher Education), under which an eligible faculty member or principal administrator may purchase annuity contracts for the purpose of receiving retirement and death benefits. The four (4) approved vendors (AIG-VALIC, American Century, Fidelity, and TIAA-CREF) have separately issued financial reports, which may be obtained through their respective corporate offices.

Benefits
Benefits depend solely on amounts contributed to the plan plus investment earnings. Benefits are payable to participating employees or their beneficiaries in accordance with the terms of the annuity contracts.

Funding Policy
The University System of Georgia makes monthly employer contributions for the Regents Retirement Plan at rates adopted by the Teachers Retirement System of Georgia Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2005, the employer contribution was nine and sixty-five one-hundredths percent (9.65%) of the participating employee's earnable compensation. Employees contribute five percent (5%) of their earnable compensation. Amounts attributable to all plan contributions are fully vested and non-forfeitable at all times. In 2005, employer and employee contributions were (in thousands) $64,014 (9.65%) and $32,853 (5%), respectively.

Teachers' Retirement System of Georgia

Plan Description
The Teachers' Retirement System of Georgia ("TRS") is a cost-sharing multiple-employer plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS. TRS issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained at the TRS offices.

On October 25, 1996, the Board created the Supplemental Retirement Benefit Plan of the Georgia Teachers ("SRBP"). SRBP was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code ("IRC") as a portion of TRS. The purpose of SRBP is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

Benefits
TRS provides service retirement, disability retirement, and survivor's benefits. Title 47 of the Official Code of Georgia assigns the authority to establish and amend the provisions of TRS to the State legislature. A member is eligible for normal service retirement after thirty (30) years of creditable service, regardless of age, or after ten (10) years of service and attainment of age sixty (60). A member is eligible for early retirement after twenty-five (25) years of creditable service.

Normal retirement (pension) benefits paid to members are equal to two percent (2%) of the average of the member's two (2) highest paid consecutive years of service, multiplied by the number of years of creditable service up to forty (40) years. Early retirement benefits are reduced by the lesser of one-twelfth (1/12) of seven percent (7%) for each month the member is below age sixty (60), or by seven percent (7%) for each year or fraction thereof by which the member has less than thirty (30) years of service. It is also assumed that certain cost-of-living adjustments, based on the consumer price index, will be made in future years. Retirement benefits are payable monthly for life. Death, disability and spousal benefits are also available.

Summary of Significant Accounting Policies
The financial statements of TRS are prepared on the accrual basis of accounting. Contributions from the employers and members are recognized as additions when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefit and refund payments are recognized as deductions when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. No investment in any one organization, except the U. S. Government, represents five percent (5%) or more of the net assets available for pension benefits.

Note 15. Retirement Systems (continued)

Funding Policy
TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Member contributions are five percent (5%) of annual salary, and employer contributions are nine and twenty-four one-hundredths percent (9.24%), as required by the June 30, 2003, actuarial valuation. The State's contributions to TRS for the years ending June 30, 2005, 2004, and 2003 were (in thousands) $123,865, $123,832, and $123,023, respectively, and were equal to the required contributions for each year.

Note 16. Postemployment Benefits

In addition to the pension benefits described in Note 15, the State of Georgia provides postretirement health care benefits through the State Health Benefit Plan to retirees pursuant to Title 45, Chapter 18 of the OCGA. An individual eligible for these benefits must have been a full time employee at the time of retirement of either the State of Georgia or a county social service agency and must be receiving monthly retirement benefits from either the Employees' Retirement System of Georgia or a county employees' retirement system. The State Health Benefit Plan is a public entity risk pool funded by employee and employer contributions. Employees and retirees subject to the Plan contribute amounts determined by the State Personnel Board for various health insurance plans. The various agencies of the State contribute to the health insurance fund based upon amounts recommended by the State Personnel Board and set forth in the Appropriations Act. The State Health Benefit Plan is funded on a "pay-as-you-go" basis. Expenses of the Plan include provisions for incurred but not reported claims.

As of June 30, 2005, there were 24,016 employees who had retired and were receiving postretirement health care benefits through the State Health Benefit Plan. For the fiscal year ended June 30, 2005, the State recognized expenditures of $154,781,050, which was net of retiree contributions of $44,773,783.

Pursuant to the general powers conferred by OCGA Section 20-3-31, the Board of Regents of the University System of Georgia (college and university funds) has established group health and life insurance programs for regular employees of the University System. It is the policy of the Board of Regents to permit employees of the University System eligible for retirement or that become permanently and totally disabled to continue as members of the group health and life insurance programs. Employees who are eligible for retirement or disability under the criteria established by the Teachers Retirement System and who have at least ten years of service with the University System are eligible for these postemployment health and life insurance benefits. The University System pays the employer portion for group insurance for affected individuals. For the fiscal year ended June 30, 2005, the University System recognized expenditures of $49,212,798, which was net of participant contributions of $25,916,227.

Note 17. Deficit Fund Balances/Net Assets

The following organizations/funds had deficit balances at June 30, 2005.

Primary Government

General Fund
At June 30, 2005, the General Fund had an unreserved, undesignated fund deficit of $78,976,956. This deficit is primarily due to timing differences in posting liability accruals and the corresponding assets, and to a statutory requirement to calculate the Revenue Shortfall Reserve on a budgetary basis.

Internal Service Funds

Agency for Removal of Hazardous Materials – At June 30, 2005, the agency had an unrestricted net assets deficit of $350,564.

Internal Service Funds – Risk Management

State Indemnification Fund – At June 30, 2005, the Fund has an unrestricted net assets deficit of $500,051.

Unemployment Compensation Fund - At June 30, 2005, the Fund had an unrestricted net assets deficit of $3,007,720.

Workers' Compensation Fund – At June 30, 2005, the Fund had an unrestricted net assets deficit of $99,993,861. If this deficit were allocated back to the contributing funds, the amount attributable to the General Fund is approximately sixty-eight percent or $68 million, the Higher Education Fund portion is approximately twenty-two percent or $22 million, and the remainder applies primarily to component units and external organizations.

Note 17. Deficit Fund Balances/Net Assets (continued)

Component Units

Lake Lanier Islands Development Authority - At June 30, 2005, the Authority had an unrestricted net assets deficit of $7,453,358.

North Georgia Mountains Authority – At June 30, 2005, the Authority had an unrestricted net assets deficit of $8,603,070.

Road and Tollway Authority – At June 30, 2005, the Authority had an unrestricted net assets deficit of $354,440,010. This deficit is the result of a timing difference in the flow of the Authority's assets (bond proceeds) and liabilities (bond debt). Bond proceeds are disbursed over a three- to five-year construction period (the resulting assets are not capital assets of the Authority); whereas the bond debt obligations generally have maturity periods of twenty years.

Georgia Tech Facilities, Incorporated – At June 30, 2005, the Corporation had an unrestricted net assets deficit of $5,708,000.

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REQUIRED SUPPLEMENTARY INFORMATION

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Required Supplementary Information
For the Fiscal Year Ended June 30, 2005

Employees' Retirement System of Georgia

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability ("AAL") - Entry Age (b)	Unfunded AAL/(Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL/(Funding Excess) as a Percentage of Covered Payroll [(b-a)/c]
6/30/02	12,124,414	11,994,850	(129,564)	101.1%	2,408,306	(5.4%)
6/30/03	12,428,736	12,370,563	(58,173)	100.5%	2,489,490	(2.3%)
6/30/04	12,797,389	13,106,648	309,259	97.6%	2,445,619	12.6%

State of Georgia

Required Supplementary Information
Budgetary Comparison Schedule
Budget Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance Positive (Negative)
Funds Available (inflows)				
Revenues:				
State Appropriation				
Regular	$ 15,448,164,768	$ 15,625,848,315	$ 15,622,227,507	$ (3,620,808)
Lottery Proceeds	771,553,228	776,892,107	776,892,107	0
Tobacco Settlement Funds	156,370,000	156,370,000	156,370,000	0
Federal Revenues	7,704,412,702	11,039,161,593	9,721,474,467	(1,317,687,126)
Other Revenues Retained	4,731,916,530	7,597,466,604	6,539,360,039	(1,058,106,565)
Total Revenues	$ 28,812,417,228	$ 35,195,738,619	$ 32,816,324,120	$ (2,379,414,499)
Carry-Over from Prior Year:				
Transfer from Fund Balance	—	1,518,367,470	1,663,327,485	144,960,015
Total Funds Available	$ 28,812,417,228	$ 36,714,106,089	$ 34,479,651,605	$ (2,234,454,484)
Expenditures (outflows)				
Administrative Services, Department of	$ 179,343,784	$ 202,432,741	$ 41,301,782	$ 161,130,959
Agriculture, Department of	48,451,962	53,681,678	53,547,810	133,868
Audits and Accounts, Department of	28,443,466	28,193,466	27,530,625	662,841
Banking and Finance, Department of	9,850,558	10,187,213	10,159,158	28,055
Community Affairs, Department of	179,931,380	263,702,692	248,954,836	14,747,856
Community Health, Department of	8,131,512,089	11,192,812,666	10,011,302,919	1,181,509,747
Corrections, Department of	907,832,119	1,011,195,142	965,850,492	45,344,650
Defense, Department of	43,541,986	38,938,877	38,144,825	794,052
Early Care and Learning, Department of	360,959,969	392,911,537	382,905,562	10,005,975
Economic Development, Department of	25,812,690	25,796,981	25,176,364	620,617
Education, Department of	6,928,793,016	7,723,774,823	7,584,846,987	138,927,836
Employees' Retirement System - Administrative Expense Fund	11,596,478	17,747,633	14,199,889	3,547,744
Forestry Commission	37,806,520	49,039,545	48,657,417	382,128
General Assembly	33,304,450	32,854,358	29,316,511	3,537,847
General Obligation Debt Sinking Fund	923,167,993	905,611,482	816,478,149	89,133,333
Governor, Office of the	42,494,761	193,574,871	140,054,991	53,519,880
Guaranteed Revenue Debt Common Reserve Fund				0
Human Resources, Department of	2,575,234,831	3,478,366,725	3,182,387,994	295,978,731
Insurance, Department of	16,609,672	17,676,026	16,939,738	736,288
Investigation, Georgia Bureau of	91,115,171	153,395,957	119,889,939	33,506,018
Judicial Branch	154,626,752	168,285,147	176,748,899	(8,463,752)
Juvenile Justice, Department of	285,735,574	305,284,763	297,527,365	7,757,398
Labor, Department of	347,258,096	418,195,988	407,020,448	11,175,540
Law, Department of	35,024,648	51,219,025	50,595,697	623,328
Motor Vehicle Safety, Department of	88,872,574	97,720,290	95,617,295	2,102,995
Natural Resources, Department of	126,765,541	264,484,015	244,472,299	20,011,716
Pardons and Paroles, State Board of	44,720,644	45,795,063	45,117,017	678,046
Personnel Board, State - Merit System of Personnel Administration	13,716,521	15,181,768	12,910,934	2,270,834
Public Safety, Department of	93,837,541	128,632,036	115,681,753	12,950,283
Public School Employees' Retirement System	1,420,696	1,420,696	1,420,696	0
Public Service Commission	8,347,019	8,776,709	8,678,625	98,084
Public Telecommunications Commission	33,504,954	31,519,544	28,303,860	3,215,684
Regents of the University System of Georgia, Board of	3,834,311,738	4,691,136,031	3,940,899,751	750,236,280

Required Supplementary Information
Budgetary Comparison Schedule
Budget Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance Positive (Negative)
Revenue, Department of	$ 486,740,235	$ 522,687,184	$ 521,396,487	$ 1,290,697
Secretary of State	36,471,649	58,536,574	57,941,884	594,690
Soil and Water Conservation Commission	5,269,712	7,832,077	7,824,092	7,985
Student Finance Commission	538,769,289	538,841,975	484,630,477	54,211,498
Teachers' Retirement System - Expense Fund	26,547,268	26,885,607	25,928,323	957,284
Technical and Adult Education, Department of	363,869,512	513,899,411	493,162,114	20,737,297
Transportation, Department of	1,664,186,905	2,977,674,417	2,293,124,017	684,550,400
Veterans Service, Department of	31,749,758	33,168,815	32,933,775	235,040
Workers' Compensation, State Board of	14,867,707	15,034,541	12,493,573	2,540,968
Total Expenditures	$ 28,812,417,228	$ 36,714,106,089	$ 33,112,075,369	$ 3,602,030,720
Excess of Funds Available over Expenditures			$ 1,367,576,236	$ 1,367,576,236

Required Supplementary Information
Budgetary Comparison Schedule
Budget-To-GAAP Reconciliation
For the Fiscal Year Ended June 30, 2005

		General Fund
Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Funds Available" from the budgetary comparison schedule	$	34,479,651,605
Differences - budget to GAAP:		
Revenues of nonbudgeted funds included within the State's reporting entity, and shown in the General Fund for financial reporting purposes.		16,820,305,784
Revenues of budgeted funds included in the Budget Fund, but removed from the General Fund for financial reporting purposes.		(4,489,083,463)
Budgeted Carry-Over Funds from Prior Year Fund Balances shown as Funds Available in Budget Fund, but removed for financial reporting purposes.		(1,663,327,485)
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes.		(135,877,604)
Receivables and revenues accrued based on encumbrances reported for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting.		(332,249,908)
Accrual of taxpayer assessed receivables and revenues .		2,674,959
State appropriation revenues are budgetary resources, but are netted with the State's treasury disbursements for GAAP purposes.		(16,555,489,612)
Some federal financial assistance is reported as revenue when received in the Budget Fund, but these funds are not earned at year end, and are shown as deferred revenue for GAAP purposes.		(57,001,335)
Revenues from intrafund transactions are budgetary resources, but are not revenues for GAAP reporting purposes.		(385,842,017)
Fund balance adjustments are not inflows of budgetary resources, but affect current year revenues for GAAP reporting purposes.		(663,541,256)
Revenue reported for nonbudgetary food stamp program.		1,016,964,569
Revenue reported for nonbudgetary donated commodities.		68,770,862
Increase in investment income to reflect change in fair value of investments.		2,781,008
Other net accrued receivables and revenues.		619,062,287
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	28,727,798,394

Required Supplementary Information
Budgetary Comparison Schedule
Budget-To-GAAP Reconciliation
For the Fiscal Year Ended June 30, 2005

		General Fund
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Expenditures" from the budgetary comparison schedule	$	33,112,075,369
Differences - budget to GAAP:		
Expenditures of Nonbudgeted Funds included within the State's reporting entity, and shown in the General Fund for financial reporting purposes.		70,011,527
Expenditures of Budgeted Funds for organizations not reported in the General Fund.		(6,736,721,072)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for GAAP reporting purposes.		(816,122,020)
Encumbrances for supplies and equipment ordered but not received are reported as budgetary expenditures in the year the order is placed, but are reported as GAAP expenditures in the year the supplies and equipment are received.		(513,915,392)
Expenditures from intrafund transactions are budgetary outflows, but are not expenditures for GAAP reporting purposes.		(385,842,018)
Fund balance adjustments are not outflows of budgetary resources, but affect current year expenditures for GAAP reporting purposes.		(119,438,476)
Change in expenditure accrual for nonbudgetary medicaid claims		(51,600,000)
Expenditures reported for nonbudgetary food stamp program.		1,016,964,569
Expenditures reported for nonbudgetary donated commodities.		71,676,604
Accrual of teacher salaries not included in current budget year.		39,791,823
Capital lease acquisitions are not outflows of budgetary resources, but are recorded as current expenditures and other financing sources for GAAP reporting.		1,643,969
Other net accrued liabilities and expenditures.		112,336,424
Total Expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	25,800,861,307

Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2005

Budgetary Process

The Official Code of Georgia Annotated (OCGA), Title 45, Chapter 12, Article 4 sets forth the process for the development and monitoring of an appropriated budget for the State of Georgia. Not later than September 1 of each year, the head of each executive branch budget unit must submit estimates of the financial requirements for the subsequent fiscal year to the Office of Planning and Budget, which operates under the direction of the Governor. Budget estimates relative to the legislative and judicial branches of State government are provided to the Office of Planning and Budget for the purpose of estimating the total financial needs of the State, but are not subject to revision or review by the Office of Planning and Budget.

The Governor, through the Office of Planning and Budget, examines the estimates and may investigate and revise executive branch submissions as necessary. Upon the completion and revisions of the estimates, the Governor must prepare and submit a budget report to the General Assembly within five days of the date on which the General Assembly convenes. The Governor possesses the responsibility and authority to establish the revenue estimate for the corresponding fiscal year.

The General Assembly, after adopting such modifications to the Governor's budget report, as it deems necessary, enacts the General Appropriations Act for the subsequent fiscal year. Each General Appropriations Act enacted, along with amendments as are adopted, continues in force and effect for the next fiscal year after adoption. In accordance with the Constitution of the State of Georgia, Article III, Section IX, Paragraph IV, the General Assembly is prohibited from appropriating funds for any given fiscal year which, in the aggregate, exceeds the amount of unappropriated surplus funds expected to have accrued at the beginning of the subsequent fiscal year together with the total estimated amount of receipts from existing revenue sources, less refunds, anticipated to be collected in the subsequent fiscal year. The Constitution further authorizes the passage of additional Supplementary Appropriation Acts, provided sufficient unappropriated surplus is available or additional revenue measures have been enacted. Federal funds received by the State are continually appropriated in the exact amounts and for the purposes authorized and directed by the awarding federal agency.

Internal transfers within a budget unit and between objects of functional or activity budget units are subject to the condition that no State funds shall be transferred for the purpose of initiating a new program area not currently having a State funds appropriation.

The Governor, through the Office of Planning and Budget, requires each budget unit, other than those of the legislative and judicial branches, to submit an annual operating budget based on the activities and functions set forth in the Appropriations Act. Budget units submit quarterly allotment requests, which must be approved in conjunction with quarterly work programs prior to release of appropriated funds. Further monitoring of budget unit activities is accomplished by review of expenditure reports, which are submitted quarterly to the Office of Planning and Budget.

Budget units (i.e., agencies, commissions) of the State are responsible for budgetary control of their respective portion of the total State appropriated budget. The legal level of budgetary control is at the object class level. Due to the complex nature of the State appropriated budget, a separate budgetary report entitled, "Report of the State Auditor," is published each year. This report includes a listing of State organizations (appropriation units) which incurred expenditures in excess of amounts budgeted by object class.

The appropriated budget covers the majority of the governmental funds included within the State of Georgia reporting entity, but excludes the debt service fund and capital projects funds, which are not subject to appropriation. The budget does include certain proprietary funds, the higher education funds, and the administrative costs of operating various public employee retirement systems.

Budgetary Presentation

The accompanying budgetary comparison schedule for the Budget Fund presents comparisons of the legally adopted budget with actual data prepared on the budgetary basis of accounting utilized by the State. The Budget Fund, a compilation of the budget units of the State, differs from the funds presented in the basic financial statements. The Budget-to-GAAP reconciliation immediately following the budgetary comparison schedule identifies the types and amounts of adjustments necessary to reconcile the Budget Fund with the General Fund as reported in accordance with generally accepted accounting principles.

STATE OF GEORGIA

Statistical Information

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SELECTED EMPLOYMENT AND POPULATION DATA

The following tables under this heading set forth certain categories of employment and population data for the State of Georgia.

State of Georgia
Annual Averages

Year	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2001	4,283,156	4,112,868	170,288	4.0%
2002	4,328,634	4,118,606	210,028	4.9%
2003	4,368,874	4,159,543	209,331	4.8%
2004	4,442,542	4,230,639	211,903	4.8%
2005	4,588,023	4,346,289	241,734	5.3%
2006*	4,699,000	4,484,700	214,300	4.6%

* **September** 2006 Estimates, Seasonally Adjusted
Source: U.S. Department of Labor, Bureau of Labor Statistics

State Employees
(Full and Part-Time, as of June, yearly)

Year	Total Employees	Part Time	Full Time
2002	81,804	962	80,842
2003	82,963	981	81,982
2004	81,480	931	80,549
2005	82,137	903	81,234
2006	83,057	791	82,226

Source: Georgia State Merit System

Major Nongovernmental Employers

COMPANY	EMPLOYEES
Wal-Mart Stores Inc.	52,653
Publix Supermarkets, Inc.	20,755
The Kroger Company	20,500
Delta Air Lines, Inc.	20,147
Shaw Industries Inc	19,000
BellSouth Corp.	18,000
Mohawk Industries	17,186
The Home Depot Inc.	13,184
Bank of America	13,101
United Parcel Service Inc.	13,000
The Southern Co./ Georgia Power	12,661
Georgia-Pacific Corporation	10,200
WellStar Health System	10,112
Cox Enterprises, Inc.	10,000
Target Corporation	10,000
Emory System of Health Care	8,400

Source: Georgia Department of Economic Development, July 2006

Employment in Non-Agricultural Establishments by Sector in Georgia
(Annual Average, in thousands, seasonally adjusted)

Sector	2002	2003	2004	2005	Sept.-2006
Natural Resources and Mining	12.3	12.3	12.2	12.1	12.2
Construction	195.9	195	199.8	208.9	218.2
Manufacturing	466.7	452	448.3	448.8	449.0
Total--Goods - Producing	674.8	659.3	660.3	669.8	679.4
Trade, transportation and utilities	832.3	824.6	830.2	851.9	871.6
Information	131.8	123.4	118.2	116.2	115.6
Financial activities	212.8	216.4	218.7	225.4	230.9
Professional and business services	515.8	490.3	510.4	534.5	549.4
Education and health services	372	395	409.3	423.1	438.1
Leisure and hospitality	337.3	348.1	360.1	371.3	383.6
Other services	167.9	155.5	156.2	158	157.8
Government	624.8	632.4	637.2	649.9	666.5
Total--Service-Producing	3,194.7	3,185.7	3,240.2	3,330.3	3,413.5
Total non-farm	3,869.5	3,844.9	3,900.5	4,000.1	4,092.6

Source: U. S. Department of Labor, Bureau of Labor Statistics (Amounts may not add precisely due to rounding.)

Average Hourly Earnings in Manufacturing

Year	United States	Southeast(1)	Georgia	Georgia as % of U.S.	Georgia as % of Southeast
1990	$10.83	$9.35	$9.16	84.6 %	98.0 %
1995	12.37	10.87	10.71	86.6	98.5
2000	14.38	12.95	13.01	90.5	100.4
2005	16.56	14.85	14.56	87.9	98.0

Average Annual Growth Rates in Hourly Earnings

Years	U.S.	Southeast (1)	Georgia
1990-1995	2.7 %	3.1 %	3.2 %
1995-2000	3.1	3.6	4.0
2000-2005	2.9	2.8	2.3

(1) Southeast refers to the twelve-state region made up of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

Source: U.S. Bureau of Labor Statistics, *Employment and Earnings*, May, yearly (Southeast calculated as weighted average of each state's average hourly earnings. Weight is based on number of employees on manufacturing payrolls.)

Population Trends

	1980	1990	2000
State Total	5,464,265	6,478,000	8,186,453
Percent Urban	62.4%	65.0%	71.6%
Percent Rural	37.6%	35.0%	28.4%

Source: U.S. Bureau of Census, 2000 *Census of Population and Housing*

Relative Per Capita Income

Year	US Per Capita Income	Southeast Per Capita Income (1)	Georgia Per Capita Income	Georgia Per Capita % of U.S.	Georgia Per Capita % of Southeast
2001	30,575	27,356	28,675	93.8	104.8
2002	30,804	27,808	28,689	93.1	103.2
2003	31,472	28,470	29,000	92.1	101.9
2004	33,050	29,756	29,782	90.1	100.1
2005	34,586	31,003	31,121	90.0	100.4

Average Annual Growth Rates in Per Capita Income

Years	U.S.	Southeast(1)	Georgia
1980-1990	6.8%	7.2%	7.7%
1990-2000	4.4	4.4	4.7
2000-2005	3.0	3.2	2.1

(1) Southeast refers to the twelve-state region made up of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Median Household Income

Year	U.S.	Georgia	Georgia % of U.S.
1997	$40,699	$40,323	99.1
1998	42,173	41,935	99.4
1999	43,228	41,878	96.9
2000	43,162	43,070	99.8
2001	42,228	42,576	100.8

Source: *Georgia Statistical Abstract 2004-2005*, Selig Center for Economic Growth, University of Georgia

Georgia Median Age Levels

Year	Median Age
1980	28.6
1990	31.5
2000	33.4

Source: U.S. Census Bureau, May, 2001

Georgia Public School Enrollment (PK –12)

Year	Annual Enrollment (1)
2000-01	1,444,937
2001-02	1,470,634
2002-03	1,496,012
2003-04	1,522,611
2004-05	1,553,437
2005-06	1,598,461

(1) Enrollment as of October, yearly.
Source: Georgia Department of Education

Per Capita Gross State Product
(Georgia, Southeast, United States)
($ per Capita)

Year	United States	Southeast (1)	Georgia
1997	$29,864	$26,972	$30,900
2002	36,161	33,589	36,001
2004	39,672	36,753	38,589
2005	41,844	37,505	40,155

(1) Southeast refers to the twelve-state region made up of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.
Sources: U.S. Department of Commerce, Bureau of Economic Analysis; (Population Estimate—Census Bureau)

Georgia's Revenues and Personal Income

Fiscal Year	Georgia Revenues (1) Billions of $	Georgia Revenues (1) Annual Percent Change Over 5-Year Period	State Personal Income (2) Billions of $	State Personal Income (2) Annual Percent Change Over 5-Year Period	Receipts as a Percent of Personal Income
1995	$ 9.626	6.0%	$154.483	6.7%	6.2%
2000	$13.782	7.4%	$222.663	7.6%	6.2%
2005	$15.814	2.8%	$274.255	4.3%	5.8%

(1) Amount derived from "Total General Funds," see Page A-11.
(2) Average of total personal income for the four calendar quarters of the fiscal year.

Sources: U.S. Department of Commerce, *Survey of Current Business*, February, April, and November, yearly; Report of the State Auditor**,** yearly

SELECTED AGRICULTURAL DATA
Cash Receipts by Selected Commodities and Payments from Government
For Georgia 2000-2004
(In Thousands of Dollars)

Year	Crops	Livestock & Dairy Products	Poultry & Eggs	Government Payments	Total Receipts and Payments
2000	1,924,262	663,067	2,444,004	380,057	5,411,390
2001	1,771,529	703,488	2,835,608	427,261	5,737,886
2002	1,581,896	563,898	2,328,138	658,101	5,132,033
2003	2,152,529	644,457	2,579,425	552,617	5,929,028
2004	2,036,173	778,881	3,291,971	280,917	6,387,942

Source: Georgia Agricultural Statistics Service, *Georgia Agricultural Facts, 2005*

Farm Cash Receipts
Georgia and United States, 2004
(In Millions of Dollars)

	Total All Receipts	Total Livestock & Dairy	Meat Animals	Dairy Products	Poultry and Eggs	Miscellaneous Livestock	Government Payments
Georgia	$ 6,388	$ 779	$ 481	$ 236	$ 3,292	$ 61	$ 281
United States	241,200	123,500	62,200	27,400	29,500	4,400	13,300

CROPS

	Total	Food Grains	Feed Crops	Cotton	Tobacco	Oil Crops	Vegetables & Melons	Fruits and Nuts	All Other Crops
Georgia	$ 2,036	$ 31	$ 100	$ 487	$ 86	$ 393	$ 455	$ 146	$ 338
United States	117,800	9,100	28,200	5,400	1,500	19,800	17,300	15,500	21,000

Sources: U.S. Department of Agriculture, Economic Research Service; Georgia Agricultural Statistics Service, *Georgia Agricultural Facts, 2005*

EARNINGS BY MAJOR INDUSTRY: 2005 Annual Average
(Billions of Dollars Seasonally Adjusted Annual Rate)

	Construction	Manufacturing	Trade	Services	Government
Georgia	$14	$27	$32	$113	$39
Alabama	6	17	12	39	20
Florida	34	25	56	226	66
North Carolina	13	34	26	89	39
South Carolina	6	16	11	36	18
Tennessee	9	26	20	74	21
Southeast	118	213	217	824	322
United States	518	1,025	954	4,014	1,305

Source: U.S. Department of Commerce, Bureau of Economic Analysis

APPENDIX D

CERTAIN DEFINITIONS

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DEFINITIONS OF CERTAIN TERMS

The following is a summary of certain definitions set forth in the Indenture and used in this Official Statement. Capitalized terms used in this **Appendix D** and not otherwise defined herein or in the forepart of this Official Statement have the meanings given such term in the Indenture.

"Authorized Denominations" means (i) with respect to any Term Rate Period, $1,000 and any whole multiple thereof and (ii) with respect to any Commercial Paper Period, Daily Rate Period or Weekly Rate Period, $100,000 and any whole multiple of $1,000 in excess of $100,000.

"Bank Bonds" means any Bonds purchased with moneys provided by the Bank pursuant to the Liquidity Facility until such Bonds are remarketed as provided in the Tender Agreement.

"BMA Index Rate" means the rate published in The Bond Market Association Municipal Swap Index, produced by Municipal Market Data, a Thomson Financial Services Company, or its successors.

"Bond Counsel" means a firm of attorneys knowledgeable and experienced in the law relating to municipal securities and the law relating to the federal and State of Georgia taxation of interest thereon and retained by the State.

"Business Day" means any day other than (i) a Saturday, a Sunday or any other day on which banks located in the city in which the Principal Office of the Tender Agent or the Paying Agent is located or in which the office of the Bank from which payments are made pursuant to the Liquidity Facility located, are authorized or required to remain closed or (ii) a day on which the New York Stock Exchange is closed.

"Calculation Period" means, with respect to any Bond of the applicable Series, each period during which such Bond shall bear interest at a Commercial Paper Rate, and with respect to such Bond of the applicable Series, shall be a period of at least one day but not more than 180 days.

"Daily Rate Period" means each period during which a Daily Rate is in effect for the Bonds of a Series.

"Electronic Means" means telephone, telecopy, telegraph, telex, internet, electronic mail, facsimile transmission or any other similar means of electronic communication. Any communication by telephone as an Electronic Means shall be promptly confirmed in writing or by one of the other means of electronic communication authorized in the Indenture.

"Favorable Opinion of Bond Counsel" means an opinion of Bond Counsel, addressed to the State, the Commission, the Paying Agent, the Tender Agent, the Remarketing Agent and the Bank to the effect that the action proposed to be taken is authorized or permitted by the laws of the State, the Resolutions and the Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes, or any exemption from State income taxes, of interest on the applicable Series of Bonds.

"Fitch" means Fitch Inc. d/b/a Fitch Ratings, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, **"Fitch"** shall be deemed to refer to any other nationally recognized securities rating agency designated by the State with the approval of the Remarketing Agent.

"Interest Accrual Date" means (a) with respect to any Daily Rate Period, the first day thereof and thereafter, the first Business Day of each calendar month during that Daily Rate Period, (b) with respect to any Weekly Rate Period, the first day thereof and, thereafter, the first Business Day of each calendar month during that Weekly Rate Period, (c) with respect to any Term Rate Period, the first day thereof and, thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date and (d) with respect to each Bond Interest Term within a Commercial Paper Period, the first day thereof.

"Interest Payment Date" means (a) with respect to any Daily Rate Period or Weekly Rate Period, the first Business Day of each calendar month, (b) with respect to any Term Rate Period, each January 1 and June 1, or, if any such December 1 or June 1 shall not be a Business Day, the next succeeding Business Day, and (c) with respect to any Bond Interest Term, the day next succeeding the last day thereof. Notwithstanding the foregoing, interest on Bank Bonds will be paid at such times as are specified in the Liquidity Facility.

"Immediate Liquidity Termination" means a termination of the Liquidity Facility for the applicable Series before its expiration date pursuant to provisions in such Liquidity Facility that allow the Bank to terminate its obligation to purchase the Bonds of such Series immediately upon the occurrence of certain events set forth therein without giving any advance notice to the State or the Commission.

"Interest Rate Period" means any Daily Rate Period, Weekly Rate Period, Commercial Paper Period, Term Rate Period or Alternate Rate Period.

"Liquidity Facility" means the Standby Agreement for the applicable Series and any Substitute Liquidity Facility for such Series and, with respect to any Series of Bonds for which the State has determined to provide its own liquidity support pursuant to the Indenture, means the State. Any reference to the Liquidity Facility in any provision in the Indenture means the Liquidity Facility for each respective Series of Bonds to which such provision applies.

"Liquidity Facility Annual Fee" means the annual fee of the initial Bank expressed in terms of a percentage of the Outstanding amount of the respective Series of Bonds.

"Maximum Rate" means 9% per annum.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, **"Moody's"** shall be deemed to refer to any other nationally recognized securities rating agency designated by the State with the approval of the Remarketing Agent.

"Opinion of Counsel" means, with respect to any Series, an opinion in writing signed by an attorney or firm of attorneys acceptable to the Paying Agent, the Tender Agent, the Remarketing Agent and the Bank, which may be counsel for the State or other counsel.

"Owner" means a person in whose name a Bond is registered in the registration books provided for in the Indenture.

"Paying Agent" means the initial Paying Agent appointed for each respective Series of Bonds pursuant to the Indenture and any successor paying agent appointed by the State for any particular Series of Bonds. Any reference to the Paying Agent in any provision in the Indenture means the Paying Agent for each respective Series of Bonds to which such provision applies.

"Principal Office" means, with respect to the Tender Agent, the Paying Agent or the Remarketing Agent for the applicable Series, the address for such party set forth in the Indenture, as it may be changed from time to time pursuant to the provisions of the Indenture.

"Rating Agency" means Moody's, S&P and Fitch.

"Record Date" means (a) in respect of any Daily Rate Period, Weekly Rate Period or any Bond Interest Term, the Business Day immediately preceding each Interest Payment Date and (b) in respect of any Term Rate Period, the fifteenth (15th) day of the month immediately preceding such Interest Payment Date or, in the event that such date shall occur prior to the first day of a Term Rate Period, then the Record Date shall be the first day of such Term Rate Period.

"Remarketing Agent" means each of the initial Remarketing Agents appointed for each respective Series of Bonds pursuant to the Indenture and any successor remarketing agent for any Series of Bonds appointed in accordance with the Indenture. Any reference to the Remarketing Agent in any provision in the Indenture means the Remarketing Agent for each respective Series of Bonds to which such provision applies.

"Remarketing Agent's Annual Fee" means the annual fee of the initial Remarketing Agent expressed in terms of a percentage of the Outstanding amount of the respective Series of Bonds.

"Remarketing Agreement" means each Remarketing Agreement, dated as of December 21, 2006, between the State and each initial Remarketing Agent appointed pursuant to the Indenture, as each such remarketing agreement may be amended or supplemented from time to time, or any remarketing agreement entered into between the State and a successor Remarketing Agent for any Series of Bonds. Any reference to the Remarketing Agreement in any provision in the Indenture means the Remarketing Agreement for each respective Series of Bonds to which such provision applies.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and their assigns, and if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, **"S&P"** shall be deemed to refer to any other nationally recognized securities rating agency designated by the State with the approval of the Remarketing Agent.

"Commercial Paper Period" means each period, comprised of Bond Interest Terms, during which Commercial Paper Rates are in effect for the Bonds of a Series.

"Standby Agreement" means each Standby Bond Purchase Agreement, dated December 21, 2006, between the State and the Bank with respect to each Series of Bonds, as the same may be amended or supplemented from time to time.

"Substitute Liquidity Facility" means, with respect to each Series, a liquidity facility for such Series meeting the requirements set forth in the Indenture which shall be a purchase agreement, letter of credit or other liquidity facility, or any combination thereof, having a term of at least 364 days issued by one or more commercial banks or savings and loan associations, or other financial institutions located within or without the State of North Carolina, and may include the State if it determines to act as its own liquidity facility. Any reference to a Substitute Liquidity Facility in any provision in the Indenture means the Substitute Liquidity Facility for each respective Series to which such provision applies and means the State with respect to any Series for which the State has determined to provide its own liquidity support pursuant to the Indenture.

"Tender Agent" means the initial Tender Agent appointed for each respective Series of Bonds pursuant to the Indenture and any successor tender agent for any Series of Bonds appointed by the State for such Series. Any reference to the Tender Agent in any provision in the Indenture means the Tender Agent for each respective Series of Bonds to which such provision applies.

"Tender Agreement" means each Tender Agent Agreement, dated as of December 21, 2006, between the State and each initial Tender Agent appointed pursuant to the Indenture, as each such tender agreement may be amended or supplemented from time to time, and includes any tender agreement entered into between the State and a successor Tender Agent for any Series of Bonds. Any reference to the Tender Agreement in any provision in the Indenture means the Tender Agreement for each respective Series of Bonds to which such provision applies.

"Term Rate Period" means each period during which a Term Rate is in effect for the Bonds of a Series, which shall be a period of at least 181 days.

"Weekly Rate Period" means each period during which a Weekly Rate is in effect for the Bonds of a Series.

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APPENDIX E

STATE OF GEORGIA

Form of Opinion of Bond Counsel

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December __, 2006

Georgia State Financing and Investment Commission
Atlanta, Georgia

Banc of America Securities LLC
Atlanta, Georgia

Lehman Brothers Inc.
New York, New York

Wachovia Bank, National Association
Charlotte, North Carolina

Dexia Credit Local, New York Branch
New York, New York

The Bank of New York Trust Company, N.A.
Atlanta, Georgia

Re: $100,000,000 State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-1; $100,000,000 State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-2; $100,000,000 State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-3

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Georgia (the "State") in connection with the issuance by the Georgia State Financing and Investment Commission (the "Commission"), acting for and on behalf of the State, of (i) $100,000,000 State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-1 (the "2006H-1 Bonds"); (ii) $100,000,000 State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-2 (the "2006H-2 Bonds"); and (iii) $100,000,000 State of Georgia General Obligation Variable Rate Demand Bonds, 2006H-3 (the "2006H-3 Bonds," and together with the 2006H-1 Bonds and the 2006H-2 Bonds, the "Bonds").

We have examined (i) a certified copy of the resolution of the Commission authorizing the issuance of the Bonds, (ii) certain proceedings of a Committee composed of members of the Commission authorized by the Commission to, among other things, provide for the issuance of the Bonds, (iii) the Bond Indenture of the Commission, dated December 21, 2006 (the "Indenture"), (iv) a certified copy of the validation proceedings in the Superior Court of Fulton County, Georgia, pertaining to the Bonds, (v) the Constitution and laws of the State and (vi) other documents relating to the Bonds. The Bonds are issued in book-entry only form as fully registered Bonds in the denomination of $100,000 each, or any integral multiple of $1,000 in excess of $100,000, are transferable to subsequent owners as therein provided, are dated their date of issuance and delivery, bear interest from such date at rates determined in the manner described in the Indenture, all interest payable on the dates as described in the Indenture, with a final maturity of December 1, 2026. The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity and optional and mandatory tender in the amounts and on the terms specified in the Indenture. The Bonds are being issued to finance various public purposes.

Regarding questions of fact material to our opinion, we have relied on certified proceedings and other certifications of the Commission, public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

(1) The Bonds (i) have been duly authorized and executed by the State and lawfully issued under the Constitution and laws of the State, including specifically, Article VII, Section IV of the Constitution of the State and an Act of the General Assembly of the State known as the "Georgia State Financing and Investment Commission Act" (Georgia Laws 1973, page 750, et seq., as amended), and (ii) constitute legally binding and valid general obligations of the State.

(2) Under the Constitution of the State, the General Assembly of the State is required to raise by taxation and to appropriate to a special trust fund designated “State of Georgia General Obligation Debt Sinking Fund” in each fiscal year such amounts as are necessary to pay the debt service requirements in such fiscal year on all general obligation bonds issued pursuant to the Constitution. The Constitution also provides that if for any reason the monies in the Sinking Fund are insufficient to make, when due, all payments required with respect to general obligation bonds, the first revenues thereafter received in the general fund of the State shall be set aside to the extent necessary to cure the deficiency and deposited into the Sinking Fund; provided, however, the obligation to make such Sinking Fund deposits shall be subordinate to the obligation imposed upon the fiscal officers of the State pursuant to the provisions of Article VII, Section IV, Paragraph III of the Constitution with respect to contracts of the State securing outstanding obligations of various State authorities. The Constitution now provides that the State and all State institutions, departments and agencies are prohibited from entering into any contract (except contracts pertaining to guaranteed revenue debt) intended to secure any bonds or other obligations of any public agency, public corporation, authority or similar entity.

(3) The full faith, credit and taxing power of the State are pledged to the payment of the principal of and interest on the Bonds.

(4) The interest on the Bonds is exempt from present State of Georgia income taxation.

(5) Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the State comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Commission has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

The foregoing is subject to the understanding that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditor’s rights generally and by equitable principles whether considered at law or in equity.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement, dated December __, 2006, relating to the Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

THOMAS, KENNEDY, SAMPSON & PATTERSON

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STATE OF GEORGIA • GENERAL OBLIGATION VARIABLE RATE DEMAND BONDS • SERIES 2006 H-1, H-2 AND H-3

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